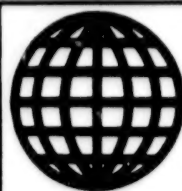


JPRS-EER-90-004  
9 JANUARY 1990



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

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# ***JPRS Report***

## **East Europe**

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# East Europe

JPRS-EER-90-004

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## GERMAN DEMOCRATIC REPUBLIC

### LDPD Organ Publishes Party Position Paper

90EG0080B East Berlin DER MORGEN in German  
16 Nov 89 pp 3-4

[Resolution adopted by the Political Committee of the LDPD Central Directorate: "Principles of Liberal Democratic Policy Today"]

[Text] Let us look the truth in the eye: our fatherland, the German Democratic Republic, is in danger. As much as they may wish to harm us, it is not external enemies that have endangered the existence of the republic; internal contradictions, long pent up and repressed, are coming to the surface and producing social and political conflicts. The GDR is in a profound crisis. Our economy is in a desolate state. What we characterized as democracy and rule of law is showing itself to be quite inadequate. Culture, education, and the sciences have not been able to develop for a long time. Young people see no prospects for themselves and for the country. Hypocrisy, accommodation, and political opportunism have done a great deal of moral damage. The citizens no longer have confidence in the political leadership.

"We are the people"—it is with this cry that the population of our country is turning against the intolerable arrogance of power and political ignorance. The people are beginning to realize their sovereignty. The members of all classes and states are awakening. This has never happened before in German history. Socialism on German soil is thereby getting a new chance and the citizens are making it their business!

At a time when it was threatened with reprisals, the LDPD [Liberal Democratic Party of Germany] declared openly that our country needs a new policy. It needs a radical change away from consent to codetermination democracy, from excessive optimism and lies to the political truth, and from proclamations on alliance policy to the equal cooperation of the parties. But that does not exonerate us.

The LDPD also bears responsibility for the situation in which the GDR finds itself. It should have publicly criticized and rejected the policies of the SED [Socialist Unity Party of Germany] much earlier and much more emphatically. But we believe that the rigorous self-examination of the political and moral positions that we also took and the resulting equally critical reflection on the responsibility of a party to the people gives us, the LDPD, the right not only to be heard again but also to take even more critical, demanding, and urgent action in social processes, the formation of the political will and in decisions and developments. That is the mission of the members of the party, the population groups that are especially close to it and of all citizens who feel themselves tied to the LDPD.

The obligation to represent political interests is taking on new meaning for the LDPD. The policies of the LDPD

result from its declared will to establish socialism on German soil and to give it an overall European perspective as well as from its understanding of the German Democratic Republic as a state for all the people.

What we considered to be socialism is the framework, the foundation walls of a new social order that can make it possible to realize the promise of the French Revolution: "Liberty, equality, and fraternity." The formation of socialism is a historical process. We stand just at the beginning of it!

The consequence for us is a policy that can be described as follows: the existence and prosperity of the GDR as a socialist German state are of fundamental importance for the constellation of forces in Europe and thus for peace and security based on this constellation of forces. What happens in the GDR always has a European dimension. The "European" house that we are striving for can be built only if we proceed from the situation on German soil just as it is. Europe has to do with the present and the future and nothing to do with the return to the past. That also defines our position on the national question.

Today the German mission is to understand the development of good neighborly cooperative relations between the GDR and the FRG as a permanent process and to shape a policy that serves the people.

We consider it urgently necessary to undertake a critical assessment of the history of our country under the aspect of how it could repeatedly come to the misuse of power, stagnation, and a personality cult. It must not be permitted that the responsible politicians avoid their responsibility without being brought to account. From this position, we want to preserve the accomplishments for which we fought and worked together.

This position means that the LDPD:

1. commits itself to a socialism that guarantees the political rights and liberties of every citizen just as it realizes its social rights and liberties;
2. advocates a socialism that is based on performance and competence;
3. stands up for a socialism that embodies pluralism and democracy and cannot exist without them and that is not bound to predetermined "ironclad" power structures.

The development of socialism is in the interest of all the people and a matter for all the people. The working class thereby has a special historical responsibility. Political leadership through parties cannot be handed down or decreed in the constitution. Political leadership has to do with the ability to gain trust and to build majorities, to bring about a social consensus, to mobilize and integrate the forces of the people and to submit oneself to a democratic judgment.

The parties and state must separately occupy the positions determined for them by the constitution. Trade



and industry, public education, culture, and science are subordinate only to the competent representations of the people and the state authorities empowered by them. The National People's Army serves the republic, not just one class. Militia units that are under a party are to be disbanded.

The LDPD wants to take the initiative in every area of society and in all areas of state policy. It takes a position always and everywhere from its indivisible responsibility for the GDR. It will inevitably be in opposition to all social and political forces and to all views and decisions that stand against the democratic renewal of socialism, that hinder and curb it and seek to thwart it.

Our understanding of loyalty to the constitution also includes the right and duty to consider constitutional provisions and to change them if necessary.

The people of the GDR, whose will was articulated in demonstrations and civic movements, on the streets and at meetings and not least in the pronouncements of the LDPD in such a way that it could no longer be ignored, has opened the door to change and the fundamental renewal of the GDR. Whereas socialism in the colors of the GDR has heretofore been primarily a hope, we now have the historical chance of actually giving it a national character.

### **For Democracy and the Rule of Law**

#### **I.**

Power belongs to the people. Proceeding on this basis, the LDPD declares:

The People's Chamber of the German Democratic Republic is the highest body of authority. It makes decisions that are equally binding for citizens, parties, and state bodies. All conflicting provisions and rules, including and especially those that are unwritten, are without effect; anyone who continues to try to apply them will be taken to account. This applies analogously for all representations of the people; the groups of the LDPD to be formed in the local representations will see an important task in helping to secure the authority of the representative bodies in this sense.

The position and tasks of the GDR Government are to be redefined. The constitution is the standard. It sets forth that the government is responsible to the People's Chamber alone and is controlled by it.

The content and scope of the government's responsibility are to be examined critically and redefined.

The reorganization of the government and the redefining of the government's policy through the People's Chamber are to be linked with the introduction of a far-reaching administrative reform. The LDPD will present its own proposals and ideas in this connection. The key words are simplification of structures, visibility and closeness to the citizens; rigorous restriction of administrative outlays (debureaucratization); freeing of

manpower (and its primary utilization in the area of the service sector to the extent possible); implementation of the performance and competence principle in the use of employees.

The idea of establishing a constitutional court and of setting up administrative courts corresponds to proposals by the LDPD. They are aimed at controlling the use of power, checking its lawfulness and legitimacy, and preventing its misuse.

What the GDR needs is democratic mechanisms (and the guarantee of their functioning) that in the future will preclude the raising of state bodies, parties or persons above the sovereignty of the people. It is precisely under this aspect that the LDPD favors the elaboration of a new constitution at the proper time. Consideration should be given to the restoration of the Lands of the GDR.

Thought should be given to reestablishing the office of president of the GDR in the course of necessary constitutional amendments.

The agencies for protection and security are to be subjected to democratic control through the representations of the people and the public. That must be prescribed by law.

The LDPD views the implementation of the competence principle as one of the decisive conditions for innovations in all areas and especially at the administrative and managerial levels of the state agencies and the economy as well as in the areas of cultural, educational, and scientific policy. This means the examination and redefining of personnel policy, which likewise must be subjected to democratic openness and publicity.

#### **II.**

The LDPD advocates public discussion and the rapid passing of laws of a fundamental nature. The LDPD is proposing:

1. an election law that guarantees secret voting, precludes manipulations and makes mandatory the decision between parties that stand for different programs. The time of the holding of seats and of elective functions of representations of the people is to be limited. Regulations are to be passed that preclude the holding of multiple offices. The new legislation on elections goes along with the legalization of civic movements and initiatives for the establishment of new parties;

2. a party and an association law that regulates the admission and public behavior of organizations and civic movements on the basis of the constitution. We are thereby to proceed under the principle that political structures cannot be prescribed;

3. a law on demonstrations that guarantees everyone the civil right to meet with others, including in public places, to articulate interests and bring them to the public consciousness;

4. a law on the freedom of opinion and press that guarantees citizens, parties, organizations and in general all social forces the unhindered and equal access to the media;

5. a law that regulates the self-administration of municipalities and that redefines the powers of the local representations of the people on the basis of the constitution;

6. a law on judges as well as a new law on the court system; the independence of the courts is to be guaranteed under all circumstances;

7. a law on the economic reform.

The LDPD considers it urgent to examine the penal code and to eliminate political provisions in the criminal law. Neofascism and racism, the inciting of peoples and the glorification of war are, on the basis of precise definitions, still to be prosecuted under the criminal law.

The LDPD considers it necessary to include in the labor code greater rights for the managers in the labor process as well as the right to strike as the last means of working people to put through legitimate concerns.

### III.

The LDPD is in favor of a school that is based on the principle of secularism, state sovereignty, and uniformity. In our understanding, secularism excludes education in a particular world outlook. State sovereignty means in particular the determining and controlling influence of the representations of the people on the schools and school policy. Uniformity means equal educational opportunities for all children of the people regardless of their social origin and ideological creed and also regardless of the political views of the parents and the pupils themselves. Only the performance of the pupil counts. That is valid for the transition to the extended secondary school and likewise for the competition for studies.

Individuals are to be trained and citizens educated who decide consciously and voluntarily for the GDR and who themselves determine the manner of their collaboration.

The LDPD considers urgent:

1. the redetermination of the content of the civic instruction in the schools for general education;

2. the redetermination of the content of history instruction, especially with respect to the recent history of the German people and the history of the GDR;

3. the redetermination of the relationship of youth or children's organizations to the schools;

4. the redetermination of the rights of parents' councils and the soon reelection of parents' representations.

The LDPD is committed to the interests of young people. When there is talk today of truth and political

morality, then this also means the entire truth about the basic state of the young people in this country. The LDPD, at any rate, sees it this way.

Young people ask questions. We agitated too often and too long but we did not find any answers or we gave answers that were perceived as dishonest because they did not encompass the whole truth and were therefore rejected.

Young people want to change the world in accordance with their ideas. But we explained to them that they are safe; and many perceived this as a humiliating duty under which they were merely supposed to complete what the founding fathers of the GDR had preconceived and preplanned.

The LDPD supports the formation of a youth association with a liberal democratic orientation.

The LDPD considers it appropriate to encourage young people but just as necessary to judge the performance of young people soberly and to counteract any euphoric overemphasis in the interest of the consensus of all generations.

### For a New Position of Science and Culture

The LDPD considers it necessary to raise the social status of the intelligentsia decisively. It is not enough to stress the responsibility of the intelligentsia in science and technology in education, culture, and art and in public health and social services and of the managers in these and other areas relative to the society. It is also necessary to redefine the responsibility of the society for the intelligentsia. This is being opposed by tendencies toward leveling and egalitarianism. We demand and advocate the full development of the specific social profile of the intelligentsia with its rich traditions and the establishment of the necessary conditions of a material and intellectual nature.

1. The highest priority is to be given to science for the successful development of our country and its citizens. The social sciences must no longer be the "handmaid of politics." Decisions by parties and the state are not a limit to thought. The LDPD expects advanced intellectual work from the sciences.

2. Scientific freedom also means freedom from bureaucratic hindering of patronization, research without taboos, preeminence of competence, open and public exchange of opinions and unhindered participation in international scientific life.

3. The self-determination of the sciences is based on a humanistic view of man and knows about the dialectics of risk and responsibility.

4. Culture and art in the understanding of the society are to be redefined in terms of their civilizing roll of decisive importance in the formation of the human personality. Creativity, imagination, and the value and magnitude of cultural and artistic performance can not be decreed.

5. In this sense, a fundamentally renewed culture policy is necessary in all social areas. There must be an end to agitating abridgements and simplifications in the defining of the function of culture and art and to the intervention in the cultural and artistic processes of the past.

6. The indispensability of the arts must no longer merely be proclaimed. In accordance with the special features of their work, artists are to be given the latitude without which the arts cannot flourish. Censorship and leading by the nose harm them as well as the society. The LDPD is counting precisely on the artists to advance the intellectual renewal in our country. For this reason, we need their achievements here above all.

The LDPD is calling for the introduction of immediate measures as well as the elaboration of a program for the rehabilitation of the public health service and the free licensing of physicians is to be allowed liberally. The LDPD advocates the formation of independent physicians' associations.

#### For a New Economic Policy

##### I.

The democratic renewal of socialism in the GDR must be linked with an economic reform that releases the innovative forces of our people, makes possible moderate growth on the basis of science and technology and essentially maintains social property relations. The point of departure, bases, objectives and means of the economic reform are to be decided by the People's Chamber and implemented through joint efforts. The LDPD favors a debureaucratized planning that guarantees the greatest flexibility and that is oriented toward social needs and the market.

It is most urgent to attack the following tasks and problem areas:

1. A national economic "cash audit"; the situation in which our country finds itself must be disclosed without restraint in order a) to determine the most urgent tasks for the year 1990; b) so that there can be realistic planning in the area of municipal policy and c) because only the truth can motivate working people to renewed efforts.

2. Elaboration of a long-term economic strategy based on the sober assessment of our possibilities and of the economic, scientific-technical, and intellectual potential. The concepts of the LDPD can be summarized as follows:

—Continuation of the scientific-technical revolution at a level that utilizes all the advantages of international cooperation and that is oriented toward a high quality of life and the environment.

—Organization of socialism in the GDR as a performance society. That includes a new approach to the

implementation of the performance principle and a redefining of the policy on subsidies and thus of price policy.

—Concentration of central management and planning on basic questions in economic policy. Unrestricted self-responsibility of enterprises, combines, and territories in the framework of the necessary planning. Drastic reduction of administrative staffs.

—Sensible integration of the national economy of the GDR in the international socialist and world economic division of labor.

—Rehabilitation of state finances and the currency and development of their mechanisms; protection of the currency.

—Formation of a healthy relationship between large enterprises in the form of combines and small and medium-sized enterprises, especially in industry and construction. This includes the decartelization of certain combines and the overcoming of production monopolies.

—Full development of private initiative and other—besides national property—possible forms of ownership, e.g., producing cooperatives and private enterprises including the formation of mixed forms such as joint-stock companies and companies with limited liability.

—Redetermination of the national economic structures and investment policy with the objective of the consolidation of the material and technical base, the overcoming of disproportions and the development of product lines that correspond to the conditions of the GDR.

—Development of the infrastructure, above all the securing of the necessary transport functions.

—Determination of new priorities in construction. Priority goes to construction in the inner cities, especially maintenance and repair work. The construction industry is to be structured and organized accordingly. New areas of cooperation are to be opened up for the cooperatives and the private building trade.

—Comprehensive reform of wholesale trade, including the organization and development of private wholesale trade as well as reorganization of the relationships between production and trade.

—Further organization of agrarian policy and comprehensive promotion of a close link between efficient agricultural production with the development of the villages. That presupposes independence and the freedom of agricultural producer cooperatives to make decisions. Immediate measures are to be introduced to accelerate the modernization of agriculture and the foodstuffs industry and to improve the provision with spare parts.

- Elaboration of a new commercial and trade law as well as reforms of price, tax, credit, and tariff policy in commerce and business. Securing of equal economic relations for artisans and persons carrying on a trade in the national economy.
- Full cooperative self-administration of the production cooperatives of crafts: fundamental expansion of trade policy and development of the chamber of handicrafts and the chamber of commerce and industry into independent vocational organizations as well as other specific forms of effective representation of interests.
- Achievement of the legal and other preconditions for foreign capital investments, including the establishment of joint ventures in the GDR.

## II.

In the elaboration of economic and social policy, the LDPD considers it indispensable to proceed on the basis of a new economic and ecological concept. It is no longer enough merely to consider environmental requirements. Urgent are:

1. The legal prescription of environmental protection as a component of the preparation and realization of investment projects. To make the ecological surroundings and ecological effects of projects transparent and thus assessable, the project drawing office needs independent experts.
2. Formation of a central state environmental inspectorate having rights that cannot be suspended or impaired by other state agencies.
3. Ecological tasks and problems must retain their place in the scientific instruction of the schools and beyond that in the education and training of the young generation.

As in the past, the LDPD will use its possibilities and influence to heighten the public consciousness of environmental protection.

A Principles Commission appointed by the Political Committee of the Central Board is in the process of summarizing our social and political standpoints and of drafting a "Program of the LDPD." Points of departure are proposals, demands and ideas of members, who are hereby called upon to participate actively in the program work; drafts developed in the Principles Commission will be published and are conceived as the basis for the democratic collaboration of all.

The LDPD acts as a party of peace, democracy, and progress for the citizen. It is pursuing a policy that, relying on the will of the members and supported by the sympathy of many other citizens of our country, is aimed at promoting the democratic renewal of the GDR and at making it irreversible. It is in this sense that the LDPD will give itself a new statute.

## HUNGARY

### Progress Report on Political Party Registrations

25000558A Budapest NEPSZABADSAG in Hungarian  
14 Dec 89 p 5

[Interview with Dr. Maria Almasy, Budapest City Court council chairwoman, by Tibor J. Kery: "How Many 'Official' Parties Are There?"; date and place not given]

[Text] The Law on Political Parties has been in force since 30 October. The various parties have three months to register their organizations, thereby maintaining legal continuity.

We asked Dr Maria Almasy, Budapest City Court council chairwoman, about the applications that have been submitted during the past six weeks.

[NEPSZABADSAG] How many applications have you received?

[Almasy] Thus far the Budapest City Court has received 28 applications. But this number applies only to parties operating within this court's jurisdiction, because the law provides that social organizations must apply for registration at the court that has jurisdiction in the county in which their headquarters are located.

[NEPSZABADSAG] How many of the 28 applicants in Budapest have received the green light?

[Almasy] Thirteen. These are the Hungarian Liberal Party, the Hungarian Socialist Party, the Hungarian Radical Party, the Hungarian Liberal People's Party, the Independent Social Democratic Party, the Hungarian National Party, the People of the East Party (Christian Democrats), the Hungarian Gypsies Social Democratic Party, the Vox Humana Movement, the Entrepreneurs' Party, the Hungarian Greens Party, the Christian Democratic People's Party, and the Hungarian Democratic Forum.

[NEPSZABADSAG] What parties are awaiting favorable decisions?

[Almasy] We have applications for registration from the following organizations: the Social Democratic Party of Hungary, the Social Democratic Party, the Republican National Party, the Hungarian Socialist Workers Party, the Hungarian People's Party, the Hungarian National Christian Democratic Workers' Party, the Hungarian October Party, the Hungarian Independence Party, the Truth of New Hungarians' Party, the Hungarian Freedom Party Alliance, and the Home Country's Party. Two district chapters of both the Freedom Party and the Christian Democratic People's Party filed independent applications for registration. Such filings are enabled by the law because it provides that some unit of a social organization may also be an independent legal entity provided that it complies with the criteria provided by law. Nevertheless it is likely that these petitions will be withdrawn.



[NEPSZABADSAG] According to what you said, the Association of Young Democrats and the Alliance of Free Democrats have not yet applied for registration.

[Almasy] No, but they have ample time to do so by 30 January.

[NEPSZABADSAG] Have you rejected any applications?

[Almasy] Not a single application has been rejected on the basis of an affirmed judgment of the court. On the other hand, we have had to return applications for registration because they were incomplete.

[NEPSZABADSAG] What was missing from these applications? Could it be that some bylaws that were repugnant to the Constitution, to our existing form of government, or to the Hungarian Republic were submitted?

[Almasy] I cannot comment on that until there is an affirmed judgment of the court—if there is going to be such a thing, and if they rewrite their bylaws that enumerate their goals.

### **Controversial Periodical UJ TUKOR To Be Discontinued**

25000558B Budapest NEPSZABADSAG in Hungarian  
20 Dec 89 p 10

[Interview with Sandor Fekete, editor in chief of UJ TUKOR, by Cs. K.: "Another Slap in Culture's Face: UJ TUKOR To Be Discontinued Beginning in January"; date and place not given]

[Text] In the fistfight between money and culture the latter has received yet another slap in the face: UJ TUKOR, the colorful cultural weekly was able to stay on its feet for 13 rounds (years). Now it has suffered a knockout. We asked Sandor Fekete, editor in chief of UJ TUKOR, why.

[Fekete] The Ministry of Culture informed our publisher, Pallas, earlier that the Ministry would not be able to continue paying its share of the money required to sustain the weekly newspaper. Quite naturally, we developed plans as to how we could survive, even at the drastic price of surrendering our color pages; we would continue work in a simpler and less costly form, in black and white only. At this point, however, Jeno Nemeth, president of the Pallas Newspaper and Book Publishing House, informed us that together with his associates he had examined the feasibility of the black and white alternative. Considering price conditions expected to prevail next year, they found that the black and white alternative would also run a deficit.

[NEPSZABADSAG] But still, how large a deficit would be involved?

[Fekete] Umpteen millions per year, and the publisher alone cannot pay for that. And the Ministry declined to provide support even for a more modest UJ TUKOR.

[NEPSZABADSAG] And would they have agreed to absorb the deficit jointly with the Ministry?

[Fekete] Yes, in principle. I am saying "in principle," because on the one hand, in such a case both the publisher and the Ministry would want to know who would underwrite how much expense. On the other hand, I as the editor in chief cannot speak for the publisher. But let's stick to the facts. The last issue of UJ TUKOR will appear on the streets with a 31 December date.

[NEPSZABADSAG] And will the editorial workers also be out on the street?

[Fekete] As a special concession, the entire editorial staff will be placed on a so-called unattached list [on half pay] not for one, but for three months. Some new newspapers are in the process of being organized at the publishing house in hopes of profitable publication, thus it may be expected that several of the associates will be called to new workplaces. Only this much more: The apparently final decision has left us with a faint glimmer of hope. The head of Pallas has expressed his willingness to continue to search for solutions during the upcoming three-month transitional period, so that after a pause UJ TUKOR may be able to stand on its feet once again. I myself will search for this opportunity, as long as there is hope.

## **YUGOSLAVIA**

### **EFTA Secretary General Views Relations With Yugoslavia**

90EB0128A Zagreb VJESNIK in Serbo-Croatian  
12 Nov 89 p 7

[Interview with Georg Reisch, EFTA general secretary, by Ljubomir Cucic: "EFTA Will Help Yugoslavia"; date and place not given]

[Text] Current events in Europe are fundamentally altering the cold war typology we have had up to now. On the one hand, the process of economic integration of Western Europe is being brought rapidly to an end, while on the other, in Eastern Europe, the alliance that has existed up to now is utterly disintegrating. Political and ideological contradictions between the two poles of Europe are becoming paler, and economic and developmental contradictions are becoming more and more dominant. It is no longer difficult to imagine the day when the geopolitical configuration of the continent will be quite altered, when the attributes "Eastern" and "Western" Europe will cease to have geopolitical meaning and significance for defense. The two Europes are changing and are coming closer and closer to one another.

The role of EFTA (European Free Trade Association of six countries, mainly neutral) in this process could be out of proportion to the place which it has had in Europe up

to now. Several Eastern European countries and Yugoslavia see EFTA today as a "waiting room," as the medium through which they will enter the unified economic space in the West. It is thought, that is, that EFTA, which does not have supranational political powers, better suits countries which are just coming out of the shell of the communist alliance and nonaligned Yugoslavia. EFTA itself, on the other hand, faces the obligation of examining its own place vis-a-vis the protectionist character that is envisaged for the united market of the European Community. Squeezed, that is, between its large neighbor in the West and the growing torrent of Eastern European hopes, EFTA will probably be a kind of catalyst for gradual involvement of the reform-oriented East in West European processes of economic, but not only economic, linkage.

As far as Yugoslavia is concerned, it is essential to note that it is in a proportionately more favorable position than the East European countries. The first joint EFTA-Yugoslavia advisory group was established back in 1967, a joint committee was formed 10 years ago at the ministerial level, and in 1983 a joint declaration, the institutional foundation and framework for cooperation, was signed in Bergen, Norway. All of this happened at a time when the East was firmly barricaded in the self-sufficiency of CEMA. Up to now, then, Yugoslavia has been the only socialist country which has had institutional ties with EFTA. The EFTA countries have shown a notable interest in Yugoslavia, and one manifestation of this is in the exemptions granted to our country under the general system of preferential treatment of GATT. Nevertheless, EFTA's interest in Yugoslavia at this point is diminished by the crisis of a kind as to the identity of EFTA, its position toward the European Community, and the obligation to change that position, which in many respects is inferior.

Although Yugoslavia has certain advantages, then, over the other Eastern European countries as far as EFTA is concerned, there is a question, because of EFTA's priority obligations, whether they will take the form of conclusion of some special arrangement or the form of cooperation with that organization. Viewed from our own perspective, that possibility is additionally diminished by the multilevel crisis in Yugoslavia. Nevertheless, events in relations between Geneva and Belgrade seem almost to be surpassing what is realistically possible. Ten days ago, there was discussion of Yugoslavia outside the agenda in the informative ministerial meeting of EFTA, but unfortunately the reporter was unable to learn the details of that discussion. Immediately after the meeting I asked Georg Reisch, EFTA general secretary, to give VJESNIK an interview, which he immediately agreed to do. Yet the conversation took place the next day. I still believe that it is not going too far to conclude that that spontaneous welcome was an expression of EFTA openness toward Yugoslavia. I should mention that Georg Reisch took over the office of general secretary this April, and that before that he was the permanent Austrian representative in EFTA. His

former and present positions and his answers to the questions should be examined in the light of the Austrian decision to leave EFTA and join the European Community.

#### EFTA's Future

[VJESNIK] Mr Reisch, EFTA is probably entering the most uncertain period since the organization's establishment. The pressure of the Eastern European countries to join the Western European market through EFTA is growing stronger, some EFTA countries are thinking about leaving the grouping, and the organization itself is faced with the strategic task of defining its own position vis-a-vis the unified market. What actually is EFTA's future?

[Reisch] Relations with the European Community are today the central question for EFTA. We have just had political consultations of top diplomats concerning the work of a special EFTA committee which has been trying for 6 months to define what the content and scope will be of an agreement between EFTA and the European Community. I expect that in the joint ministerial meeting of the European Community and EFTA on 19 December we will give the green light for negotiations to begin. How will they end? We are aiming at a global agreement that will facilitate the greatest participation of EFTA countries in all four aspects of the unified market (goods, capital, personnel, and services), but we want an agreement on those aspects of cooperation not covered by the program for creating the unified market (environmental protection, research and development, transportation and communications, schooling, and so on). Acceptance of all the rules of the internal market of the European Community is a condition for us to reach such an agreement with the European Community. We will also be demanding participation in the process of making decisions in the European Community related to all matters that concern the internal market. This is an extremely important issue for us, since then the European Community also becomes politically attractive for EFTA. We do not desire to enter the autonomy of the European Community in certain areas, but we must have mechanisms that will guarantee that the decisions adopted are acceptable to both sides.

[VJESNIK] If EFTA accepts all the provisions of the unified market of the European Community, what will be the difference between EFTA and the European Community? What in general is the fate of EFTA?

[Reisch] The difference between the European Community and EFTA remains great. The European Community has and retains a supranational structure and powers, and the EFTA countries do not desire to take part in it. The political or defensive nature of the European Community does not interest EFTA. However, we want to be a part of Western European space in an economic sense and to take part in making the decisions which could affect us.

### An Important Partner

[VJESNIK] Viewed from the outside, it is still a bit unclear why more and more countries are leaving or want to leave EFTA, if it is certain that an agreement with the European Community will guarantee it an equal position in the unified market.

[Reisch] When you say "more and more countries" I do not know what you specifically have in mind.

[VJESNIK] So far, three EFTA countries have entered the European Community (Great Britain, Denmark, and Portugal). Austria has sent to Brussels an official application to join, the Scandinavian countries are also thinking about this, as indeed is a segment of the public in Switzerland.

[Reisch] What we had in the past differs from the present processes. Great Britain had political reasons for not staying outside the European Community, that new power in Europe. Denmark followed Great Britain, since the former country was its largest market. Portugal entered the European Community on the basis of the same considerations pertaining to Spain. It is important to note that all those countries are in NATO. The countries in EFTA, by contrast, are mainly neutral (except Norway—author's note). To be sure, Austria has taken the first step out of EFTA. As to why it did so, you will have to ask Vienna. Yet it is a fact that in their application the Austrians said that under no conditions could there be any negotiations concerning Austrian neutrality. For its part, the European Community informed Austria that it would not be receiving new members before 1993. Aside from that, Austria is interested in continuing the process of multilateral cooperation with EFTA, since we are going in the same direction as the European Community. There is no contradiction here at all. Austria's desire to cooperate with the European Community and with EFTA is the result of the complementarity of that country's economic and political ambitions.

[VJESNIK] You are convinced, then, that EFTA has a certain future and that assessment to the effect that it, by contrast with the European Community, will enter a process of disintegration are inaccurate?

[Reisch] On the contrary, EFTA has gained importance in the eyes of its members over the last few years, and the same thing is being seen elsewhere in western Europe. EFTA has so far been more or less outside the attention of the media in the European Community, it was always in the background in comparison with the parent integration. It is now being realized that EFTA is an important partner, a key element of the process of integration in Europe. We have become politically very interesting, and that is a fact.

### Relations With Yugoslavia

[VJESNIK] Yugoslavia has special relations with both Western European integrations, essentially different

from those which they have with other nonmember countries. How do you see Yugoslavia's place in the future "unified European economic space" of the 18 countries of the European Community and EFTA?

[Reisch] Even now, there is a certain approach in connection with Yugoslavia. As far as relations between EFTA and Yugoslavia are concerned, we need to emphasize that the two sides already have institutionalized relations, and we have a joint committee with programs for cooperation which by and large are being carried out. These contacts are already some 20 years old. It is true that in this period we have looked mainly to the promotion of trade cooperation and to the legislative aspects of that cooperation. We have been helping our Yugoslav partners with advice, we have taken part in seminars and fairs, and so on.

In recent years, we have entered new areas of cooperation, and in this connection I would like to emphasize that a few days ago we informed Yugoslavia of our intention to establish a special fund for your country's industrial development. Our delegation visited Belgrade, and we feel that your side should now clear up certain matters which must be regulated before the EFTA help, i.e., the development fund, becomes operative. I still have not studied in detail the report of the EFTA delegation, but I am informed that the visit was successful. We are preparing a special report for the ministerial meeting in mid-December, when, I believe, the decision is to be made on formation of that fund.

### Laying the Groundwork

[VJESNIK] Can we conclude from what you say that there is complete agreement among the EFTA countries concerning assistance to Yugoslavia?

[Reisch] That consensus exists, provided we answer all the questions related to the fund. I am referring first of all to the way in which the fund is managed and to distribution of the available amount of money. That is exactly what the two sides are working on in great haste before the ministerial meeting. When I was in Belgrade a few months ago, we agreed in a conversation with your Minister Horvat (Franc Horvat, vice chairman of the FEC [Federal Executive Council]—author's note) that we would begin the dialogue in both directions. Yugoslavia will regularly inform EFTA of changes in the economic system, of steps toward a market economy, and concerning legislative changes. We have come to the conclusion, then, that we have a shortage of knowledge about events in your country, that we do not know the situation as well as we might. The EFTA secretariat will be the key point for passing on the relevant information to the various member countries. At the same time, we will be informing our Yugoslav friends about the course of the process of integration in the West. The purpose of this two-way information channel is greater familiarity and laying the groundwork for Yugoslavia's inclusion in the large market that is being created.

[VJESNIK] Can it be said that these preparatory steps are only a prelude to cooperation, which will one day take the form of Yugoslavia's complete institutional inclusion in EFTA with the status of a full member?

[Reisch] I would like to be altogether unambiguous in this connection. For all our good wishes for Yugoslavia, at present EFTA's primary preoccupation is our own internal reorganization and definition of relations with the European Community. Our cooperation is based on the Stockholm Convention and on the free trade which the two integrated groups have had for more than 10 years now. Some aspects of this will probably have to be reexamined if we want to have with the European Community the relations that we need today. That is, those needs are not the same as those we had 10, 20, or more years ago. EFTA, then, has certain unknowns related to its own future, and it should be realized that they are, after all, our priority concern. I think that for the moment, as far as Yugoslavia is concerned, we should not be thinking in the direction which your question suggests.

However, I do think that in this phase of cooperation we should be thinking about its specific content. We should be working, then, on the legal and political preparations for both sides. EFTA is ready to talk to Yugoslavia about new forms of cooperation, mindful, of course, of its particular characteristics. Cooperation between EFTA and Yugoslavia is also an important element in the broader conception of European cooperation which will become more important in the course of the nineties. The various countries of EFTA also need to make gradual preparations for future expansion of unified European economic space to countries like Yugoslavia. Certainly, the condition for such expansion is the development of market-based economic systems.

#### **Vllasi Lawyer Cites 'Extraordinary' Nature of Trial**

90EB0110A Belgrade MLADOST in Serbo-Croatian  
9 Oct 89 pp 16-18

[Interview with Dr. Rajko Danilovic, defense counsel for Azem Vllasi, by Duska Maksimovic: "An Ordinary Trial?"; date and place not given]

[Text] [MLADOST] When we were making arrangements for this interview, it was your assumption that "there was good reason for it to be about Vllasi." I believe that you used the expression "good reason" advisedly?

[Danilovic] The trial of Azem Vllasi, and I would always add the trial of the miners for having carried out a political strike, has put its imprint on this year, which was already a year of interesting political happenings. However, I think that in the end this year will be remembered more for the Vllasi trial than for the other political events. This trial creates the conditions for following what has been topical in Kosovo, not in terms of criminal law, but in terms of politics, over a lengthy

period of time and with great public interest. This is especially true in relation to the adoption of the constitutional amendments in Serbia. Thanks to this trial, a topic which was actually finished and whose consequences we are already experiencing will soon come back for public examination and debate. If I were not a lawyer, but a politician, I would judge this trial to be unsuitably political.

[MLADOST] But in view of the fact that you were a member of the political leadership that was christened the "Serbian liberals"

[Danilovic] Ah, that was nearly 2 decades ago. I have forgotten, and I no longer have such ambitions. However, I have not told you what I did as a former politician, but as a professional who thinks that no political trial is worthwhile, especially since they repeat political processes and debates that are already over and done with. My fundamental position is that it is very dangerous for the prosecutor's office and the court to become mouthpieces for current politics, for them to be given a political function. I consider it very dangerous for the courts, which are very important institutions guaranteeing civil rights and liberties, important to the functioning of society, to be drawn into current politics. That is why I have been speaking about this in various places with great vigor. After all, the experiences of real socialism—and this also applies to certain other unstable political regimes—demonstrate that it is always a dangerous precedent to involve these very important and subtle public institutions in the settlement of political accounts. It is dangerous because an unstable political regime is created with an unending use of the prosecutor's office and the court to settle accounts with individuals or groups, and no one knows who the next instigator or victim will be.

#### **Vllasi Is the First of a Kind**

[MLADOST] I believe that you stated that in your objection to the indictment

[Danilovic] Yes. Here is approximately what I wrote there: It is easy to begin, but one never knows where it will end, or if it will end. I take a very critical position toward political trials. I think that they are the product of the single-party system in which one settles accounts with those who think differently politically and with opponents through the court and the prosecutor's office. To be sure, it has to be said that up to now, except for this case of Vllasi, that showdown has never been with political officials for their public political activity. This is now an innovation, if we do not count 1948, which was specific anyway.

[MLADOST] What about the "Djilas case"?

[Danilovic] Djilas was held accountable, as all the others in such trials have been, exclusively for his political activity as an intellectual, not for his activity as president of the Assembly, member of the Politburo, and so on. But Vllasi's accountability, as the indictment makes



clear, is related to his public political activity both in the Yugoslav party and in the party of Kosovo.

[MLADOST] In the answer to the indictment, you set forth the position that Azem Vllasi might possibly suffer political consequences for his activity, but not consequences in criminal law.

[Danilovic] Article 114 is popularly and colloquially referred to as "rubber," or the "rubber" article. This is an article which can be made to cover everything under which everyone can be held accountable. The acts referred to in it are vague. It says "an act aimed at..." The criminal law does not tolerate that kind of evasiveness, slipperiness. It requires a precise description of the act of committing a crime so that the legal standard, which is addressed to the citizenry, will be clear, and so that the limits of accountability will be known. In its definition of the manner of commission and the crime itself, this article is very imprecise and broadly stated with respect to those things which are being protected and which are threatened by that crime. That is, a charge under Article 114 is less definite than under Article 133, the one that is constantly being criticized, with good reason.

In Vllasi's case, it turns out that his activity, which was legal and performed through institutions, was unconstitutional. Given the way in which the indictment is written, I am afraid that this cannot mean anything but a continuation of the political dialogue which was conducted in the place where it belonged. In my opinion, this kind of trial puts the court in the position of continuing a political debate. The indictment is even written in that vein, its language is that of a political report, and I would say it is a poor example of its kind.

[MLADOST] What are the principal characteristics of the indictment, looked at in "purely technical terms?"

[Danilovic] It insists on three things. It charges Vllasi with being one of the instigators of the resistance to the amendments of the 1974 Constitution, together with the others who have been charged along with him. Couched in the terms of criminal law, one arrives at the absurd situation where the amendments, which at that time were only being discussed, are proclaimed an object of protection as though the Constitution had already been adopted, while the Constitution that was in effect and its advocacy are regarded as a violation of the established order. This is an untenable absurdity in criminal law. That is, the amendments can enjoy protection, but only commencing at the moment they are adopted.

Second, the indictment states that the miners and Vllasi were against the "renewal of personnel." But the renewal of personnel is not something protected against any crime.

Third, under the indictment their guilt is that they were against Morina, Sukrija, and Azemi. Well, so what if they were? Those three officials were still less an object of protection than the "renewal of personnel." Under

Article 114, a destructive act against legally elected officers of the state can be considered a criminal act, but here, as if for spite, all three of these officials are party officials, not a single one is a government official, and so they do not enjoy this protection.

[MLADOST] And the acts?

[Danilovic] In the case of Vllasi, for instance, it says that in some coffeehouse, the "Iso Francuz," he told his friend to send a telegram of support to him. Even if it all happened that way, it has to be explained how a telegram to the legally elected provincial committee is counterrevolutionary. That is not an act which threatens anything protected under Article 114. The next act which is alleged, for instance, is that some bus driver saw Vllasi—he is not certain whether it was on the 18th or the 19th—in front of a coffeehouse on the road from Gnjilane to Pristina, telling people to go in the direction of Pristina. The next act is going down into the mine. The inquiry referred to "unauthorized descent into the mine," but now it is no longer "unauthorized," but "covert." What kind of "covert" is involved when at the time of the strike of the Trepca miners there were cordons of police, representatives of the press, and a crowd of people around the mine?... In one of our talks, Azem Vllasi told me that he has often asked himself why he had to go down into the mine, why he reacted so emotionally to the reports concerning the poor state of health of the miners and went down to see whether that really was the case. But afterward, when he had given it more thought, he realized that the descent into the mine was not really essential. "They would have arrested me no matter what," he said.

The next act he is charged with is delivering speeches in which he spoke about AVNOJ Yugoslavia, nationalism, brotherhood and unity, and Tito's policy. And according to the indictment, and I think that this is its greatest "pearl," these were false and demagogic speeches. When I feel like joking, I refer to it this way: This is the same thing as if after the war someone had shouted "Long live Tito" and was arrested because someone thought that he had a king in mind. Another of the alleged acts, for instance, is this: In the headquarters of the provincial committee they were following the Kosovo events on television, and Zajic, the former committee secretary, asked with concern: "What are we going to do, how are we going to calm this down?" And Vllasi responded jokingly: "Restore Kacusa and me, and everything will be all right." So, even a joke uttered while watching television becomes an "act directed toward..."

#### **No Ordinary Trial, but an Extraordinary Trial**

[MLADOST] I must ask you how in practical terms the line is drawn between an "ordinary" criminal trial and a political trial?

[Danilovic] The term "political trial" has no connotation in criminal law. To be sure, it is more precise than some of the euphemisms lawyers use and conveys that facts coming from the political sphere are the matter to

be determined in the court. Your fellow journalists and even certain lawyers have rightly observed that there are certain political trials which are not political in their content, but there is a settlement of political accounts behind them. An example of this which we all had in front of us for a lengthy period was "Agrokomerc" and the trial of Fikret Abdic. Those lines, then, are difficult to draw. But in both a broad and narrow interpretation, the trial of Azem Vllasi and the miners from Stari Trg is a political trial par excellence.

[MLADOST] You constantly speak about the trial of the miners and Vllasi, while usually only the "Vllasi case" is mentioned in public. Does that fact point up anything in particular?

[Danilovic] It points up only that so far Vllasi has been the only political official, if we do not count the trials of the Cominform supporters, as I have already mentioned, who is to answer for counterrevolutionary activity because of his political commitment. However, I think it is very important that the miners cannot be omitted from an examination of this political trial. After all, they organized the political strike, and an important question in this connection is: Do citizens of the SFRY have the right to strike? With this strike they were seeking preservation of the 1974 Constitution and placement of three party officials. I think that that activity of theirs cannot be described as counterrevolutionary at all, but as an activity which takes political consequences for granted.

[MLADOST] The prosecutor asserted in a press conference that this would "be an ordinary trial."

[Danilovic] This will be an unusual trial however you look at it. First of all, it is taking place in an unusual time, it has been organized in an unusual way, and unusual people are being tried. The indispensable and necessary line between criminal and political accountability has not been drawn in these criminal proceedings. And a society which claims to be democratic, civilized, and a part of the contemporary civilized world, and of Europe in particular, certainly cannot exist without drawing that line.

[MLADOST] How do you personally see that line?

[Danilovic] There certainly are some activities which can constitute high treason. The line, however, can be drawn so that the law, in this case Title 15 of the SFRY Criminal Code, must be strictly applied. The area of criminal accountability must not be broadened. After all, a broadening of the domain of criminal accountability in and of itself signifies a narrowing of political freedoms; one might say that they are the two ends of one and the same phenomenon. Yet this society does publicly declare itself in favor of a broadening of democratic and civil rights. The trial of Vllasi and the miners prompts us to reflect about their restriction.

#### Not a Single Client Without Bruises

[MLADOST] Does this trial have some particular significance for your image as a lawyer or your practice?

[Danilovic] I will answer you in general terms: For the legal profession there is no greater failing than to refuse a client for any reason other than on strictly professional grounds. I have defended, if I might so put it, various classes of defendants: those associated with the Cominform, the Chetniks, the mass movement, and Islamic fundamentalism, and it would be utterly stupid to suppose that I identified with them in a political sense. Nevertheless, lawyers have a justified fear of defending those accused of political crimes. After the war, my fellow lawyers were harassed when they defended people accused of political crimes, but at the same time they played a large role in what I would call the lawyers' disciplining of the state. I think that today it would hardly be possible to guarantee the functioning of a law-governed state, in contrast to the partisan state, which was dominated by subjectivism and voluntarism, without an extremely important role of defenders as far as criminal trials are concerned. And when it comes to protecting other rights of citizens, the lawyer will have to function as an authorized representative.

[MLADOST] What other kind of legal discipline does this state need on its road to being a law-governed state?

[Danilovic] Repealing Article 133 for one thing, or revising Article 114 of the Criminal Code for another. Those are all consequences of the fact that this is a one-party state. After all, the judge is always interested in conducting a trial in the interest of the policy of that one party.

[MLADOST] It did put him in office after all.

[Danilovic] That's right. But if there were legal discipline of the state, the judge would have to have complete independence. The judicial function must be entirely autonomous, but that does not exist in our country today, in the system of so-called unity of government authority. And then the judicial function must be highly valued. It has been noted, for instance, although that assessment need not be correct, that the quality of the people in the court is declining all the time. Not because of the level of education, but because there is no real selection. And the selection is the way it is because this calling is placed in ever lower esteem. However, here again I will repeat something with which some of my fellow lawyers have already reproached me. That is, I feel that the courts, in spite of certain of their shortcomings, are still the most solid part of the institutions of Yugoslav society. And the people still have a fair amount of trust in the courts.

[MLADOST] Even when it comes to political trials?

[Danilovic] We have to make an exception for those trials, since they have always been conducted under certain pressures. And even if we make an exception for

them, the courts are under pressure, especially from local bigwigs and groups, there are cases of corruption and bribery, but those things are not pronounced.

[MLADOST] What are all the possible turns which events might take in the case of Vllasi before the court?

[Danilovic] The whole gamut. Everything is possible, and one should not be amazed at anything. One should not be greatly surprised at any unforeseen event that crops up on the road toward legal disciplining of the state. And in mentioning the state, I should also recall the broad powers of law enforcement agencies. The amendments to the criminal code in 1973, following the Letter of the Executive Bureau and Josip Broz Tito, tightened criminal accountability, reduced civil rights, and broadened the powers of prosecuting authorities. This can result in abuse, and it quite often does. For instance, I have hardly ever had an ordinary client. I am not talking about political clients, who has not been beaten by the police, even though the Law on Criminal Procedure explicitly prohibits the use of force. There are also other abuses, especially in connection with deals made with witnesses. Fikret Abdic put it well when he said: "Here a bad witness is a good lawbreaker."

As for those accused of political crimes, in our country they have always been arrested according to some classification or one might better refer to it as symmetry. I think nothing has brought more harm to Yugoslavia and its reputation in the world than political trials. I do not know the figures for Albania and Romania, but today Yugoslavia has more political prisoners than any other socialist country. You cannot become part of Europe as long as that is true.

#### Politics Does Not Put Up With Extremes

[MLADOST] Do you see some kind of symmetry between the trial of Jovo Opacic and that of Azem Vllasi?

[Danilovic] I cannot speak about a case with which I am not sufficiently familiar. But I can say with confidence that the trial of Opacic was against the trends about which we have been talking, against the efforts to establish a law-governed state. I believe that that trial was harmful. And if it was meant as symmetry to the Vllasi trial, then this was done mistakenly. There can be no symmetry here, since what is happening in Titova Mitrovica is considerably larger and more important than the trial of Opacic.

[MLADOST] Opacic had lawyers from every part of Yugoslavia. Vllasi is being defended by a team of lawyers, you among them, from Belgrade, Zagreb, and Gnjilane. Might one also speak of symmetry in this respect?

[Danilovic] I can only say that in our country political trials are politicized in every possible way, which is just one more piece of evidence that we do not have a law-governed state, but a political state. The choice of

lawyers to defend Vllasi came about quite by accident. Hasan Hoti is a school chum of his, and Zeljko Opacic and I, I believe, were not chosen on any regional grounds, but on professional grounds. However, some good comes from even bad politicization like that. After all, it is well known that most political trials are conducted for purposes of preventive pedagogy. To warn and silence political opponents.

[MLADOST] To what extent must a lawyer in a political trial take into account circumstances outside the law as a profession and aside from the law as a legal enactment?

[Danilovic] It is very dangerous when any criminal proceedings are evaluated by entities other than the court. As far as I am concerned personally, the only good that comes from them is for me to evaluate the conditions in which the court is trying the case. In any case, I stick to my job: establishing the facts, evaluating the state of the facts, and defending the interests of my client. Anyway, I do not believe that politicians consent to speak about political trials in any democratic society, insofar as there are political trials. They simply steer away from that, since that is a breach of the court's independence. My aim, when I defend those accused of political crimes, is to seek strict application of the law. That is, I feel that our laws, such as they are and even though they ought to undergo certain changes, are better than the practice of the courts. Our courts do not apply them strictly, especially in political trials, and this broadens the domain of criminal accountability, and they are guided by certain reasons of political expediency. In the case of Vllasi and the miners, strict application of the law sets them free.

[MLADOST] All that remains for them, in your opinion, is political accountability, which you mention even in the answer to the indictment?

[Danilovic] I would not like to speak about that type of accountability, since I am not an authority on that. But it is well known that in politics accountability is the balance of political power. Those who are stronger win, those who are weaker lose, but this should be entirely separated from criminal accountability. When that line is lost sight of, we can speak of societies which are not stable in either political or judicial terms. Which is why it is dangerous.

[MLADOST] Let us not measure the stability or instability of our society at this point, but place the example of Vllasi and the miners in the context of all our differences.

[Danilovic] Our divisions are deep and it is a good thing that they are deep, since then they make every extreme opinion still more extreme. An optimum and democratic policy must overcome those extremes. For example, in Christianity it was the rich who invented charity. So, if we are going to look for analogies, only a strong policy can be charitable, while a weak one is merciless.

[MLADOST] It is said that you are very charitable in the case of Vllasi. That is, that you are working on this case without payment.

[Danilovic] That is not so. They are paying me, moderately to be sure, since they have financial problems. But that is not information for the newspapers. Something for the newspapers, for example, is that the defense has hired another lawyer, my good friend Orhan Nezvati, an Albanian, a liberal, who was a member of the Secretariat of the Serbian LC [League of Communists] with Nikezic and Latinka Perovic.

[MLADOST] So, liberals in defense of Vllasi.

[Danilovic] No. Lawyers in defense of Vllasi.

[MLADOST] I was joking. But I am interested in what the trial of Azem Vllasi can mean for this legal system?

[Danilovic] I consider the outcome of Opacic's trial to be a great lesson for the law-governed state, a triumph of the law-governed state over the political state. And I would be heartened if the outcome of the trial of Vllasi and the miners were the same kind of lesson. That is the only good that can come from this trial.

#### **Negative Aspects of 'Loans for Serbia' Revealed**

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9 Oct 89 pp 19-20

[Article by Dragoslav Grujic and Filip Mladenovic: "The Nine Deadly Sins, or Everything You Wanted To Know About the Loan but Didn't Dare Ask"]

[Text] 1. The Loan for Economic Development of SR Serbia [Socialist Republic of Serbia], floated from 26 June to 20 December 1989, is in a way a form of economic elections, but indirect. The state is the middleman between the owner of capital and its ultimate user. And we know very well how the "socialist" state manages capital!

2. In official state-party structures of SR Serbia, the loan is still conceived in the coordinates of the stale mindset of socialist realism. This is most evident from their public comment on the surprisingly bad results both in the subscription to the loan and in the payment of the money. That is, as of 5 September 1989 only 22 percent of the dinar amount and 1.6 percent of the envisaged dollar amount had been prescribed, while the amounts paid in are a mere fraction of those figures. Refusing to consent to the observation "modest response," the republic structures are reacting in a typical "agitprop" manner. They are insisting on still more highly charged advertising, on better organization, on the formation of some kind of coordinating bodies to monitor subscription of the loan, and on mobilization of individuals and the economy. They go on saying that the political readiness does exist in the population, but, dear me, our people just have not become accustomed to going to bank windows, they still are not advanced enough in

their thinking to understand and handle the bank forms. To be sure, it is admitted that here and there there continues to be a lack of trust because of bad experience with loans floated earlier, but all of that will be taken care of "when a firmer organizational contact is established between the bank and the individual." So great is the certainty concerning the people's trust in the Serbian leadership that the question of collection of the same is a matter of mechanics, organization, and coordination. So, the important thing for them is the ideological factor, the emotional factor, the patriotic factor, instead of the factor of incentive, the commercial factor, which in the case of a loan, as in the case of all other banking operations, is decisive. Emotions, however patriotic they may be, have little in common with a specific economic interest, as can be seen from the figures on the amount of money given and paid in. Whereas members of the poorer stratum of the Serbian people predominated among those who subscribed to the loan without repayment (some gave a gold ring, some 100 or 200 marks), the new rich are dominant among those who have paid in high dinar or foreign exchange amounts, whether they be *gastarbeiter* [guest workers] or the domestic rich, private businessmen, cafe owners, or people in show business. Not only have they found a good shelter for their wealth (with a guarantee from the government), not only have they freed themselves of the painful obligations of taxpayers, they have even turned out to be patriots.

#### **SR Serbia or the Serbian People**

3. The idea of a loan for Serbia's economic rebirth was born in the context of the special civil war in Yugoslavia. The Serbian leadership, in clearing up the painful question of Kosovo, has behaved at the Yugoslav level like an elephant in a shop of expensive porcelain. Having thus earned among citizens of the richest Yugoslav republics the label of being totalitarian, i.e., undemocratic, the commercial success of the loan has been suspended. In spite of assurances that the resources from the loan will also benefit the economies of the other federal units, it has turned out that this is not a loan of SR Serbia, but of the Serbian people. To make matters worse, domestic conflicts have inundated the pages of the world press, above all the European press, and this has caused many of our people working abroad to hesitate. This has also furthered the swelling up of rumors of all kinds, among them the most striking emigre canard that the loan will be spent to arm Serbia. If we add to that the aggressive and ignorant writing of the daily newspapers here about the loan, with articles and photographs of the subscribers that are in bad taste to say the least (most of these newspapers have so far not paid in a single dinar for the loan that they are promoting so much), it is obvious that the top republic leadership was amateurish and unthinking when it hastily took up this job.

4. Certainly the biggest gaff of the loan for economic development of SR Serbia is the absence of production programs. The principles of common sensical logic require that one know in advance what the money is being invested in and why. If at the time the idea of the



loan was born they were unable to find, or to select according to strict criteria of high profitability, the most propulsive projects, why did they not hire the most economically successful firm to pull the entire thing forward with their reputation and business prestige? That would have been a very sage move, above all with a view to our citizens abroad, whose significant amounts of foreign exchange keep the economies turning there thanks to the elaborate banking mechanism. Think, for example, of "GENEX," together with McDONALDS, or "JUGOPETROL" and Hyatt hotels, taking part in promotion of the loan in the media. Or if at the very outset "Energoprojekt" had come forth with at least one lucrative business that it had. Not only would that have had a much greater promotional impact, but competitive conditions for all future beneficiaries of the resources of the loan would have been standardized in the most concrete way. This way, everything comes down to sluggish TV spots, posters, and leaflets, and, of course, to the daily newspapers.

Nevertheless, it would have been best for the floater of the loan to reverse the order in which the moves were made: first, to announce the competition for economic rebirth and economic prosperity, i.e., for the programs which promise the most. After that, the population would have been called upon to buy bonds for those production programs. That would have unleashed economic initiative, and the floater of the loan would have been freed of the painful obligation to guarantee the loan's economic success. The purchasers of the bonds would simply have decided to whom to give their money, thereby also accepting the risk their decision entailed. So, instead of indirect elections, these would have been direct economic elections with multiple candidates. This would also have meant that the capital attracted in this way would have been cheaper, and the economic effectiveness more certain. There would not have been any kind of paragonovernmental commissions to guarantee effectiveness, but everything would have depended upon the entrepreneurial logic of the citizens. This way, although slightly more than 2 months remain before the end of the loan's subscription, we still do not know in what programs the resources collected will be invested. The people in the bank consortium say that about 800 applications have been received and that all of them without exception come from the socialized sector of the economy. There really is no reason for any further comment here.

### There Is No One To Collect It

5. In adopting the Law on the Loan at a time when at the federal level there was not (and still is not) a single statute that would regulate the issuance of and trade in securities, the Assembly of SR Serbia put its success in assembling the planned resources (2,000 billion dinars and \$1 billion) to a great test. If we add that in this country there is not even a market for capital, the scant results to date of subscription of the loan for economic rebirth of SR Serbia assume comprehensible outlines. Why is it that only now, when it has been made public

that only \$1.6 million has been collected, that all the blame with great fanfare is being put on the shortage of foreign exchange bonds, that is, on their not being legally possible? Was that not known from the very beginning, or did they believe in the miracle that citizens would completely empty their mattresses and their foreign exchange accounts? Why is it being said only now that a large number of foreign firms, and indeed also domestic firms with solid earnings of foreign exchange, would have paid in their dollar share of the loan if foreign exchange bonds had only been legalized? Or is this a tacit admission of the notorious fact that even without the loan foreign firms would gladly engage in business with our enterprises concerning the most lucrative programs, if both the republic and federal legislation were less colored by ideology, i.e., were more liberal? After all, specialists have already calculated that if the trend of subscription from the "most prolific" days is maintained, by the end of the year it would be possible to assemble a maximum of \$200 million, which is only 20 percent of the amount planned.

6. Although for understandable reasons, the bank consortium assures us that all the banks on the list are ready to subscribe and make payment, all the defects (well-known long ago) of our banking have become evident once again. First of all, there is the personnel, who are not prepared for doing business with securities. Not to mention dealers and brokers for the market for capital which is to be opened in Yugoslavia in the near future. Only when our banks wrench themselves free of the embrace of sociopolitical organizations, when they set themselves up as joint stock companies, and when all the banking deficits are finally ascertained and eliminated will we have a banking that is professionally and effectively capable of handling not only one loan, but the entire trade in securities.

### Agility on Both Sides

7. The individual who, in spite of all our disappointments with the government up to this point, decides to loosen his purse strings and aid the economy whose fate he shares, in contrast with those who hold power, has to prompt the bank employee at the window. Until recently, the latter was unable to tell him how much the preferential interest on foreign exchange payments would be. That is, preferential interest in the amount of 1 percent was fixed only at the end of September. Nor will he be able to tell him when the contract concerning the deposit of foreign exchange earmarked for the economic development of SR Serbia can be exchanged for a foreign exchange bond, since this depends on a decision of the FEC [Federal Executive Council]. And finally, he will not be able to explain to him how the \$1 billion collected will be able to do away with the lag of several decades, and that at a time when the "devil's triangle" of Serbia ("Zorka" of Sabac, "Crvena Zastava" of Kragujevac, and the Smederevo Steel Mill) owe more than \$1 billion in credit obligations abroad. After all, as one

young, but wise economist has said: "The problem for socialist countries has never been money, but its correct allocation."

8. It is an open secret that there are work organizations whose bosses, out of purely careerist motives, in order to woo local party committees, are not even asking the workers whether and how much they want to pay in for the loan. There are also cases in the opposite direction, when a call is made from the committee to a firm that has not been "agile" enough in subscribing to the loan. And finally, there are even comical situations when a firm which has been recording losses in its business operation applies to subscribe to the loan.

9. What does the economy get from the loan? Expensive money, since the interest on the loan includes both regular interest and the preferential interest and the amount necessary to cover the costs of the loan, that is, the potential risks from operation of business with the resources of the loan. To be sure, the people in the bank consortium say that that interest will be subsidized, which would be on the basis of the resources presented without payment, which at this point constitute almost one-seventh of the loan that has been subscribed. However, a fund with a strictly defined purpose is being formed with the resources that have been given, a purpose that is to be pursued by making loans. There is no question at all of "eating up" those resources. An anonymous banker was quite right, then, when he acknowledged without patriotic melodrama: "It does not matter that the resources of the loan will be more expensive, since there is no money for other loans!"

### **Revival of Serbian Cultural Society in Croatia Opposed**

90EB0111A Zagreb *DANAS* in Serbo-Croatian  
31 Oct 89 pp 44-45

[Article by Zeljko Kruselj: "The Resurrection of Prosvjeta"]

[Text] What until recently caused a political scandal and was attributed to ethnic extremism is now just a question of the day when it will be done: The Serbian cultural society Prosvjeta will be revived, as will Matica Hrvatska, as a part of the same package deal. The information about the rehabilitation of these two ethnic cultural institutions in the Socialist Republic of Croatia [SR Croatia] did not arrive from any "conspiratorial" gathering, but was officially announced in the section for new political initiatives of the Croatian Republic Conference of the Socialist Alliance. Marijan Radmilovic, a member of that highest forum of the umbrella organization, thereby confirmed that official policy coincided with the initiative of the Yugoslav Academy of Sciences and Arts as to the necessity of reviving these cultural institutions. The magnanimity of the republic front should certainly be taken as recognition of a reality that could not be avoided. The celebration of the 600th anniversary of the Battle of Kosovo in Knin provides

rather persuasive evidence that it is far wiser to establish institutions under one's own roof and political sponsorship than to receive confidential reports of "destructive gatherings" on rural soccer fields and in private dwellings. The experience with Opacic's Zora has thus indirectly opened the door to cultural pluralism, which was suspended in Croatia back at the time when the mass movement was being dealt with; the main reason why the Serbian Prosvjeta suffered at that time was that parallelism in "devotion to principle" was to be demonstrated even in that respect. As a matter of fact, the Serbian society was formally abolished only in 1980, but only those who are politically naive can believe that its quiet death was the result of an accident. That a poor political assessment was actually involved is confirmed by the recent words of Andjelko Runjic, president of the SR Croatia Assembly, who expressed public regret about Prosvjeta and Matica Hrvatska, letting it be known that their cultural mission had not yet been completed and that republic authorities were ready to repudiate their earlier errors.

Thus, it seems that new winds in Croatia's political forums have brought to an end the period in which the issue of the position of the Serbs was a subject for secret meetings of republic bodies of leadership. Two such meetings, held in 1980 and 1985, with certain eminent scientists and cultural figures of the Serbian nationality sitting in, actually sealed the fate of Prosvjeta in adopting a firm commitment to the concept of joint institutions which would research the historical legacy of the two nationalities on the soil of Croatia. Today, almost all the participants in those conspiratorial meetings deny that they had any very essential role in shaping Serbian-Croatian relations, not so much because of doubt as to the advisability of institutions which did not have ethnic attributes as because of the change in political vision. One gets the impression, that is, that a considerable portion of the Serbian population in Croatia concurs in the revival of Prosvjeta, and other institutions as well, so that it would be counterproductive, to say the least, to persist in solutions which were imposed by a party ideology which at that time was still monolithic. This merely confirms the thesis of Ivan Siber that revival of Prosvjeta and Matica Hrvatska at the present moment in politics is not and cannot be a problem because of the ethnic parallelisms that are so sensitive, but is primarily an expression of a test of the level of democratic spirit in Croatia, that is, of its openness to legitimate demands by any ethnic or political grouping.

### **New Values**

It is a fact, however, that the revival of Serbian institutions opens up the problem of the so-called separation (or ghettoization) of the culture of the Serbs in Croatia. The opponents of monoethnic institutions are deeply convinced that the Serbian nationality is marginalized still more by this; not only that, but it is deliberately degrading itself to the position of an ethnic minority in Croatia. The key argument behind that assertion might

be that this kind of policy frees the entire cultural, educational, and scientific system in Croatia of responsibility for the study of the Serbian component in the space occupied jointly, while at the same time the Serbs are left to the paternalistic care of certain institutions from the republic where their parent nationality is located. In other words, in spite of the fact that the Serbs have lived several centuries continuously in Croatia, love of native land would be displaced by love of nationality. Taking these two components of patriotism separately, especially when we recall those famous statements of Nikola Tesla about his Serbian nationality and Croatian homeland, it follows that in the future Croatia would be threatened with what is today called "Kosovization," that is, that two separate cultures unwilling to communicate with one another and even at odds politically would develop here.

Advocates of the revival of Serbian institutions feel that this line of argument has no valid basis, nor has it so far been confirmed by anything in practice. They are indeed convinced that this "forced disastrousness" with respect to the future of Serbian-Croatian relations is the result of a calculated policy which continues to aim at suppression of Serbian culture, using for that purpose sloganeering about a threat to community spirit on Croatian soil. It is also significant that the proponents of that conception appeal to similar arguments in defense of their theses, but they are given the opposite significance. They agree, they say, that the problem of ghettoization of Serbian culture has in fact been raised. However, ghettoization is not a question of a future that is difficult to predict, but something that has been going on in practice for decades. The point is, they say, that the Serbs have been culturally separated by the very fact that the present joint institutions neglect their component in Croatian history. Major research projects are not uncommon in which the Serbian nationality is touched upon only marginally, and one can even find examples where no Serbian name is ever mentioned. Is this not a ghetto situation, they conclude, when the culture has too many "blank spots" and is not creating new values? Their answer would be more than affirmative, especially since those joint institutions "showed their true face" in the recent constitutional debate about language, committing themselves to an opposition to changing the present name, even though they knew that it is "unacceptable to the Serbian nationality in Croatia." It follows that the way out of this unenviable position of Serbian culture in Croatia would lie in a still faster establishment not only of Prosvjeta, but also of certain scientific institutions that would research those things that have priority in this situation, and those institutions would have ties both to institutions in Croatia and to those in Serbian centers. The staff of scholars in those institutions, the proponents note, would not be recruited on an ethnic basis, but according to their affinities as researchers; however, according to this concept it is difficult to believe that there would be any very significant movement of personnel between these new Serbian institutions and the previous joint institutions, which by the logic of things

also became monoethnic. An additional problem which must not be neglected by any means is how to provide stable sources of financing for these new Serbian institutions; more accurately, from whom are funds to be taken away so that they might be given to the new beneficiaries? The redistribution of existing resources would, then, disturb existing scientific institutions, and seeking money outside republic borders would only intensify the mistrust and political paranoia. Still, there are a series of assumptions here, and in practical terms Prosvjeta seemed like a political fiction until just yesterday.

### Ideological Errors

If we take, then, only Prosvjeta, as a "done thing," especially because of the spasmodic effort of the Socialist Alliance not to be bypassed by this initiative at least, but also because of the not exactly negligible fact that property and personnel still exist from the previous institution of the same name, then this example shows a very broad range of opinions and conceptions among the Serbs in Croatia concerning the significance and scope of that institution. If we concur in the assessment that at this point (the situation was essentially more complicated a few months ago!) the number of Serbs in Croatia who oppose any sort of revival of Prosvjeta is negligible, which is altogether independent of personal involvement in that institution, we note that there certainly will be essential disagreement when it comes to shaping its programmatic orientation. It is uncertain which conception will win out in the end, but one can see from the public statements that on one side there will be people like Stanko Korac, who will insist on copying the old Prosvjeta, attributing to it the role of a focal point of Serbian culture in Croatia. They will strive to give it the conventional task of enlightenment, primarily in reaffirmation of the Cyrillic script and the nurturing of the literary tradition, and almost all the Serbian publishing activity would probably be related to Prosvjeta. The end result of that conception might be in a somewhat livelier Serbian culture in the interior, especially among the rural population, while the intellectuals would surely feel somewhat shortchanged. It can be assumed that that kind of Prosvjeta would largely rely on parent Serbian institutions, most of all for the sake of professional help and personnel in efforts to reculturize broad segments of the Serbian population.

There is a somewhat different conception which also looks very critically upon the discontinuation of Prosvjeta and the "silent loss of Serbian identity in Croatia," but it proceeds on the proposition that every institution is the product of its time and of the specific circumstances which shape it. Thus, Prosvjeta, whose name is important above all in order to emphasize the continuity with the Serbian achievements of the National Liberation Struggle in Croatia, is "old" only in a formal sense. Its relevant work program has yet to be shaped; in the political sense it would embrace Croatia as the domain of its activity; that is, it would honor the fact that the

position of the Serbian nationality on this soil is inseparable from the Croatian nationality and that every constructive step must be based on joint efforts. This concept, in short, relies on a high degree of interethnic interpenetration, but in such a way that no one's identity is jeopardized because of "false monolithism."

Consistent with that, it is up to the Serbs themselves to determine how love for native land is to be reconciled with love of nationality, without one being refracted through the other. Dusan Starevic, who is close to that view of Prosvjeta as a metaphor of the general problem of the Serbs in Croatia, makes note at the same time that in the last year or two more has been done to reaffirm the Serbian nation than in the 30 years previously, which elegantly states to what extent it is necessary to cast off the accumulated ideological errors.

The third recognizable concept honors the revival of Prosvjeta, but not so much as an expression of ethnic reaffirmation as unambiguous proof of the democratization of Croatian society. This view is not interested in ready enthusiasm about historical arrangements that have already been tried, however successful they might have been at one time. Drago Roksandic, the most vocal representative of this conception, emphasizes that the orientation should above all be toward the future, more accurately, toward content based on Serbo-Croat interpenetration on their common soil. This certainly does not preclude conflicts and controversies in interethnic relations by any means, but a scholarly validation is required for all those topics.

#### The Memorandum Option

As for Prosvjeta, it should also be updated around affirmative programs, but it is intolerable for it to become the official interpreter of Serbian cultural and ethnic interests. Roksandic believes that it is much more suitable for Serbo-Croatian interpenetration to be regularly enriched by scientific and cultural events not sponsored by any institutional form of ethnic organization, nor any recognizable political platform.

Joint institutions should be invigorated even to the maximum in the study of Serbian history and culture, they should be wrested out of their lethargy and oriented toward long-term programs. The most suitable ways of achieving this in practice would be the recently conceived Desnica Meetings, which we have already written about, in which the Serbian component in Croatia has been systematically reaffirmed in an interdisciplinary way. In any case, the spokesmen of this view oppose establishment of separate scholarly institutions of Serbs in Croatia, feeling that there can be no future for anything based on the elevated political temperature and anyone's current ethnic value on the market, while at the same time there is a will and room for reshaping the programs of existing institutions.

Just recently, Korac's and Roksandic's concepts collided over the question of the conception of the new Serbian scholarly journal, the first since publication of NOVI LJETOPIS was halted in 1972. A working group of the Coordinating Committee of JAZU for Study of the History and Culture of the Serbian Nationality in SR Croatia, of which Zorica Stipetic and Ante Bezen are members along with Roksandic, has proposed a journal to be called DIJALOZI [DIALOGUES]. Indeed, the very name clearly states in what manner the authors of the proposal conceive the articulation of interethnic relations in Croatia, with emphasis on community spirit as a "conscious historical choice." Korac, on the other hand, favors consistent revival of NOVI LJETOPIS, so that "under the altered social conditions it might perform a cultural mission among the Serbs in Croatia." It was in fact that anachronistic aspect of Korac's concept that gave the advantage to DIJALOZI in the first test, but the final decision is yet to come.

Every conversation about the challenges raised by Prosvjeta would be deficient if it did not indicate the view of the top leadership of the Serbian Orthodox Church in Croatia. Although here again we cannot speak of unanimity, the rather lengthy and carefully prepared interview which NIN published with Jovan Pavlovic, metropolitan of Zagreb and Ljubljana, is indicative. One is struck that the top figure of the Orthodox hierarchy did not even mention Prosvjeta in his descriptions of Serbian sufferings and current problems in Croatia. That surely indicates that this cultural institution, which came into being during the National Liberation Struggle, is seen to be too much of a lay institution to be able to express the spiritual component of the Serbs in Croatia. Simply put, the Orthodox hierarchy still has fresh memories of those Serbian atheists who under the cover of Prosvjeta waged outright wars against that church on orders from the party, and the postwar destruction of certain Orthodox churches is even charged to them. But if Prosvjeta has negative connotations for the Serbian Orthodox Church, this still does not mean that Metropolitan Jovan is against institutionalization of the Serbs in Croatia. As a matter of fact, he conceives this very broadly, suggesting that the Serbs must have "schools with instruction in their own written and spoken language," scholarly institutions, and a "free church." It does not take much wisdom to conclude that this presupposes ethnic separation of the Serbian and Croatian population in Croatia dating back to the earliest time. This certainly brings us closer to that option in the memorandum for resolution of the Serbian issue in Croatia, whose ultimate goal is political autonomy. In these major political games, the upcoming resurrection of Prosvjeta is only a tiny step, but at the same time it is a step necessary for a breakthrough in the assimilation of democracy in Croatia.



## HUNGARY

### **Military Service Units Establish Private Firm**

25000548C Budapest HETI VILAGGAZDASAG in Hungarian 9 Dec 89 p 8

[Unattributed article: "Military Limited Liability Corporation"]

[Text] Five military organizations, a wholesale enterprise, and a foreign firm have established a limited liability corporation under the name "Detant." Thus far the services offered by the organization have been provided by military organizations to the civilian populace in lieu of compensation, according to a statement made by Lieutenant Colonel Jenő Kopasz to HVG. Their

business profile includes the provision of interpretation technology equipment, sound systems for premises and open areas, security technology, computerized information, and data protection provisions. In addition, in their store located on Queen Elizabeth Street [Erzsebet királyné ut], they also sell transmitting and receiving equipment, and parts and instruments withdrawn from the defense system. The limited liability corporation, established with a 2.7 million forint founding capital, also manufactures and installs communication equipment. Detant's military member organizations were commissioned earlier to provide for the acoustics of the Opposition Roundtable. They installed the sound system on Heroes' Square [Hősök Tere] for Imre Nagy's funeral. In addition, as service providers they are permanent participants in international and Hungarian congresses.

## CZECHOSLOVAKIA

### New Enterprise Capital Base Discussed

90EC0077C Prague HOSPODARSKE NOVINY in Czech 22 Sep 89 pp 8-9

[Article by Miroslav Kana: "On Equalizing Capital Assets"]

[Text] The uniformity of economic rules is one of the basic requirements of the new economic mechanism. But how can we apply such rules all at once when the organizations entering into the new economic mechanism are in varying situations; there are substantial differences in capital depreciation, the degree of investment debt, and supplies in the turnover funds. The degree to which fixed assets had depreciated (the ratio of repairs to the acquisition price of fixed assets and uncompleted investments) last year amounted to 44.6 percent in the republic's centrally managed economic organizations, but there are considerable deviations from this average. After evaluating several suggestions, a group of employees of the FMF [Federal Ministry of Finance], SPK [State Planning Commission], SBCS [State Bank of Czechoslovakia], SKVTIR [State Commission for R&D Investments], and the ministries of finance, prices, and wages of the CSR [Czechoslovak Socialist Republic] and SSR [Soviet Socialist Republic] worked out the principles for equalizing the differing capital assets of the organizations which the CSSR government approved on 8 June. According to these principles, the balancing out is to be achieved by redistributing depreciation write-offs from the less depreciated organizations to those which are worse off. There will be no consideration given to the differing degrees of investment credits. This is because the resources would also be redistributed in favor of the FMPE [Federal Ministry of Fuels and Energy], where substantial investment credits are available, but the capital depreciation is only 39.5 percent. The same is true for some metallurgical enterprises. The fact that the centrally managed industry returned the majority of the resources and replaced them with investment credits is, however, a serious matter. This means installment payments for the future, that is, repayment from the available sources of production. A zone of average wear and tear in which there will be no redistribution was also established. In addition, the organization will get only 70 percent of the calculated claim and the rest will remain in a centralized fund as a reserve for some subsidies. Because of the numerous unclear points and our readers' questions, we have invited several experts to our editorial offices.

The following individuals came to the discussion on the balancing out of capital assets:

—Eng. Jaroslav Dusek, deputy minister of metallurgy, engineering, and electronics of the CSSR;

—Eng. Gustav Hojdysz, economics deputy of the Trinec Iron Works VRSSR [Great October Socialist Revolution], Trinec;

—Eng. Josef Houfek, chief of the economic management department of the CKD [Ceskomoravská-Kolben-Danek Heavy Machinery Plants] Prague;

—Eng. Josef Kobes, director of planning and methods systems of the State Planning Commission;

—Eng. Jaroslav Mrazek, economics deputy of Texlen, Trutnov;

—Ladislav Pauker, doctor of law and director of the field of financial legal regulations and legislation of the Federal Ministry of Finance;

—Eng. Jan Vrba, deputy minister of industry of the CSR.

[HOSPODARSKE NOVINY] The requirement for balancing out the level of production bases does not have only supporters, by a long shot. It is obvious that those who are worse off in this area say "we need redistribution and we need resources." But there are many enterprises which state that this redistribution means a continuation of administrative methods, and they doubt its results.

[Mrazek] In no case is it possible to consider this balancing out just as an administrative act. If in the past something was distorted in some manner, it is necessary to restore the balance. Take our state enterprise. On the one hand our depreciation was used up and redistributed, and on the other the enterprise had to take a high level of credits on its capital investments because of their nature. We are de facto paying back our depreciation with interest on loans, and with a profitability of 4.5 percent we must request the balancing out of fixed assets and redistribution. It is obviously a question of how and in what time frame this should take place. We, however, have been depreciated to the point that we cannot imagine improving the state of the production base through our own efforts.

[Hojdysz] Redistribution of depreciation to equalize capital assets cannot solve the problem of the enterprise that has older fixed assets. We did not pursue a general inventorying of fixed assets and thus a more realistic assessment of production prices. Even though we are attempting to assist the more depreciated enterprises, the very low acquisition prices of fixed assets and their low depreciation, none in the case of full write-offs, not only distort the cost level; at the same time they affect the source of development funds created from write-offs. The value of these write-offs in most cases does not cover even half the need for resources to renovate these older facilities. In any case, redistribution of depreciation cannot be for the long term. It is necessary to rapidly resolve a new pricing of fixed assets as well.

[Houfek] In the situation and the financial balance of CKD Prague, it is necessary in some way to resolve the balancing out of the enterprise's capital assets. In the last 5-year plans, we have written off depreciation to a great extent, but also all other free resources. If we needed to

invest, then we would have to take out a loan. As a result of the implementation of special purpose investment actions decided upon earlier, such as the special production and construction project for Tatra, done mainly on credit, we have gone into debt which under the new conditions of self-financing we will not be capable of resolving ourselves without a certain balancing out of the enterprise's capital assets. We have an average degree of worn-out equipment, almost 44 percent without counting in the uncompleted investments of 53 percent, and in some plants up to around 70 percent, with a loan burden on the enterprise of over 20 percent. If we had not invested on credit in the last three 5-year plans, we would not be in debt, but the level of capital depreciation would be substantially higher. The CKD would have been subsidized from the central depreciation fund. We therefore consider the degree of worn-out assets and the debt burden as being in the same pot, but the principles of balancing out do not take this into account.

[Pauker] From the start we have to say that the balancing out of capital assets is an extraordinary step, which does not and cannot have as its goal an absolute balancing out, but only a partial one on the basis of a system that is as unified, objective, and simple as possible. Of course, it would be more suitable if a general inventory were taken first, but this is something that is supposed to happen only in the course of the Ninth 5-Year Plan. We cannot wait until that time. The starting conditions for enterprises must be decided upon now.

[Vrba] The opinions are to a decisive degree dependent upon whether it is an organization which will give up resources or receive them. Our position as the most depreciated department is therefore clear. I will give you a few figures from which you can see the enormous differences in depreciation. The organizations of the Federal Ministry of Fuels and Energy are written off by 39.5 percent, the Federal Ministry of Metallurgy, Engineering, and Electronics by 45.51 percent, the SSR Ministry of Industry by 47.08 percent, and the CSR Ministry of Industry by 52.7 percent, but a number of light industry enterprises are depreciated by more than 70 percent.

The inequality of capital assets for entering into the new economic mechanism is not just in the varying degrees of depreciation and the varying degrees of debt burden to which the governmental decree points, but also in the varying degrees to which they have been provided with working capital and in the varying levels of average earnings. Covering supplies with the working capital and credits for the supplies that have been continuously turning over in the individual departments and enterprises in recent years has developed independent of the final results of the organization, so that in this area a situation similar to the depreciation of fixed assets has occurred. The differences in average earnings are commonly known, and it is also commonly known that the level of wages has not always been connected with the

enterprise's final results; many other influences have acted upon it, often ones that were not economic in nature.

Enterprises which are faced with a high level of depreciation, a low level of working capital, and wage problems, which is often the case, especially in the consumer industry, will have to decide on what comes first since there will not be nearly enough resources for everything. Thus, one cannot say that after the government decree on equalizing capital assets has been implemented all the state enterprises will have the same conditions. In any case, however, it is a significant help to the enterprises which are effective, but outdated from the effects of the redistribution of resources, and there are a great many of these in the consumer industry branch.

[Pauker] We still run into the fact that the balancing out of capital assets is understood in various ways, even that it is a matter of balancing out from central resources. Nonetheless, it is already clear from the law on state enterprises that capital assets will be balanced out by redistribution, without the participation of the state budget. Furthermore, from the beginning the line has been pursued that the balancing out of capital assets should, as much as possible, be a matter of objective influences without the possibility of subjective ones. Therefore, the depreciation levels of individual organizations' fixed assets are being equalized with the average level of depreciation in our economy.

The individual ministries are striving to reduce the impact of redistribution. It was considered to be a matter of balancing out or augmentation of the working capital, respecting loans, and not counting in those fixed assets which are not actively used, that is, buildings and such. However, the principle of selective use of resources was approved. Only 70 percent of the centralized resources will be distributed to the enterprises according to the appropriate budget, and 30 percent will remain centralized at the federal level and used according to the debt burden or specific financial situation of this or that enterprise with the goal of supporting the structural changes.

[Dusek] I feel that the balancing out of capital assets is not in and of itself good because it is substantially unsystematic. It brings certain elements into our management system with which we usually would not have to work. But this solution is probably necessary. It is a matter of which method we adopt for balancing out the starting line. It is also possible to find other types of solutions than just determining the level to which the fixed assets have depreciated. If the overall comprehensive status of the organization is not taken into consideration, then I am afraid we will have to respect the individual requests of the enterprises. It is a matter, for example, of a situation where we will also have to determine the debt burden, or where it concerns an organization with a specific developmental program.

[HOSPODARSKE NOVINY] But in principle we have had bad experiences with exceptions, for whatever reasons.

[Dusek] The intention to balance out capital assets is good, but the form will never be such that there are no exceptions.

[Vrba] Granting exceptions to each decision is deceptive since it always reduces the effectiveness of the given decision, and not always at the expense of the state budget, but at the expense of resources being redistributed for the benefit of enterprises which have used an average level of depreciation. This has already taken place to a certain degree since the enterprises will not receive their full demand, but only 70 percent of it. We admit that it will be hard not to grant exceptions. On the other hand, it is necessary to be aware of the fact that if we start to grant exceptions, the good intention of reducing unfairness caused by the system of redistribution could end up as just an empty gesture.

[Dusek] What you say is true. But greater depreciation within Czech industry can also have another solution, such as a one-time action, before proceeding systematically.

[Pauker] The granting of exceptions would go against logic. An exception for a taxed organization would mean that money would be lacking for an organization which should receive a grant within the framework of the balancing out of different capital assets.

[HOSPODARSKE NOVINY] We have to say something about the time frame for this balancing out.

[Pauker] The balancing out will be effected in the Ninth 5-Year Plan starting in 1991. It will be calculated based on figures from 1989, and the overall amount of the payments or, as appropriate, subsidies will be equally distributed over the individual years of the 5-year plan.

[HOSPODARSKE NOVINY] It is not planned, however, that all the areas should develop at the same rate. Will an area to be de-emphasized also receive resources?

[Pauker] Not at all. Organizations with a de-emphasized program will be excluded from the redistribution, and capital assets will not be equalized for them.

[HOSPODARSKE NOVINY] Have these organizations been determined?

[Kobes] The organizations have not been specifically established, but the developmental and de-emphasized programs have been determined, and in keeping with the work on the Ninth 5-Year Plan and preparation of the directive, it will be specifically determined for which individual organizations de-emphasis comes into consideration, or, in some cases, an entire de-emphasized branch will be specified. The unified center will propose specification of these de-emphasized programs to the government. Metallurgy is perhaps the typical de-emphasized branch.

[Dusek] It will not happen that some organization will be designated as a de-emphasized one. Rather than classify them we must influence the organizations' behavior by the use of tools which make a certain line of development more or less advantageous. We also cannot forget about a certain entrepreneurial independence of the enterprises and cannot administratively and subjectively make things harder for them. After all, an enterprise can change and move into a different field.

[Hojdysz] It has already been said many times that metallurgical production should drop, but this must be connected with a drop in the demand for metals, that is, a reduction in their consumption. The reduction does not mean that we will not need resources for modernization. For example, "kontiliti" [continuous casting process] saves energy and metals and pays for itself rapidly, but it costs more than a billion korunas. We will also invest in the promising fields like robotics for heavy operations.

[Kobes] From the standpoint of the balancing out of capital assets, however, it is necessary to take into consideration that the volume of investment will experience a relative decline in some areas. We have to start with this fact in metallurgy.

[HOSPODARSKE NOVINY] In the principles for balancing out capital assets it logically says that it would not be useful to consider the debt burden. That would contribute, for example, to the nuclear program where the debt burden, that is, the ratio of investment credits to the fixed assets in acquisition prices, amounts to 31 percent for the Dukovany nuclear power plant, for instance, and the average for the centrally managed organizations is burdened in this manner by 6.5 percent. However, the requirement to include the debt when the enterprise is depreciated to the average, but has considerable investment credits, is equally logical.

[Houfek] Our CKD Prague combine has a loan indebtedness of about 20 percent and the level of depreciated equipment is about 44 percent. We are thus in the zone of no action. But there could be an enterprise with a level of depreciated equipment of about 53 percent, in the zone of subsidy, and that has a debt burden of around 10 percent. Thus we would not get anything and we would pay higher debts and interest, while the other enterprise with half the debt would get resources from the redistribution. I thus agree with comrade Dusek about exceptions in the balancing out of assets. We have sharp differences in the level of depreciation of plants. We must somehow equalize them. In doing this we would like to start with capital. That is a quantity which can be precisely determined in accounting. We arrived at the relatively objective solution as to how we could equalize our plants with a uniform, comparatively higher rate of payment from capital, according to how much profit an enterprise creates per koruna of resources committed. However, we will obviously be dependent on the center's rules.

[Kobes] How you decide on balancing out capital assets, dealing with depreciation and such, within the framework of the state enterprise is your area of responsibility, and the center will not, and is not allowed to, get involved in it. And as far as the second comment is concerned: We start with the idea that it is necessary to create a certain remainder of resources from the redistribution. The example given of an exceptionally high debt burden makes it possible for an organization in the zone of no action to receive a selective grant. Point seven of the principles on the balancing out of capital assets deals with that.

[Pauker] First of all, it is necessary to start with the fact that the differences in the level to which the fixed assets have depreciated is what is being equalized, and this does not resolve the overall income situation of the enterprises. This is the basic starting point. In doing this, as has already been said, problems can come up in the income situation of individual enterprises, perhaps directly as a consequence of the high debt burden. These cases cannot be resolved systemically, but only as individual cases utilizing that 30 percent of centralized resources.

[Mrazek] Our level of worn out equipment is even worse than the average for the department and reaches 62 percent, with 59 percent in actual machinery investments. However, I am not pleased that we are supposed to get only 70 percent of the calculated claim. Let us take the growth in prices. Textile weaving equipment is very limited in the domestic market. In 1982 we bought the existing set for about 880,000 korunas. In 1987 more or less the same type of equipment cost 1.46 million. It must be seen that this 70 percent is really not even 70 percent balancing out of assets. Therefore, I think that we should receive everything to the full amount that is determined and not just 70 percent. Why does the center want to use this 30 percent selectively?

[Kobes] We really need a general inventory, and we could be a lot more precise if we had it. You pointed out that a machine set up 6 years ago costs almost twice as much to replace. It is an imported one, but this is also true of domestically manufactured equipment. This just shows that we have not been able to hold prices down and in many cases we have allowed false innovations for which in the past we paid out wages and created market imbalances. These are matters which distort the value of write-offs. But despite this we can work with just the sum of write-offs which is available. Any other resources would mean inflation.

[Pauker] In preparing materials for the government, the element of selective use on the part of the departments was rejected, but I know that the enterprises have different levels of debt burden. It is necessary to have the capability in the center to take care of these matters in extreme cases, which is why there is the selective use. It seems to me that there continue to be certain things that are unclear. The enterprises giving up resources will surrender a maximum of 80 percent of their depreciation

so that they will keep some capability for basic renewal of the production funds, even when they have the maximum payment. The method is relatively simple. It could certainly also be taken care of in other ways, and various methods were considered, but it was decided that there should be an objective redistribution of depreciation without participation of the state budget.

[Houfek] What I referenced was Principle No 1 of the resolution on resolving the income situation of organizations through temporary redistribution of financial resources without involving the state budget. It was not stated in the principle that it was supposed to be only a resolution of depreciation. I am concerned with the other part of the same picture, which is the debt burden.

[Kobes] The law on state enterprises and the related legal measures allow only the redistribution of depreciation, and then only in two exceptional cases: for de-emphasized organizations and to equalize the capital assets. Further redistribution is expressly forbidden after 1 January 1991 by the applicable legal norms.

[HOSPODARSKE NOVINY] So the formulation in the principles about which comrade Houfek is speaking is imprecise.

[Houfek] What it quoted is Principle No 1 of the CSSR Governmental Resolution Number 171 of 8 June.

[Pauker] It actually does not follow from Principle No 1 that it is a matter of redistributing depreciation. That is established clearly by Principle No 3.

[Kobes] It is necessary to start with what the law says about the state enterprise. It permits proceeding in a different manner in 1989 and 1990 when the Eighth 5-Year Plan runs out. It therefore also reckons with the redistribution of depreciation only after 1 January 1991 so that we will not mix up two possible systems of redistribution. The payment of depreciation is limited to 80 percent. There are organizations which are only depreciated to, say, 20 percent where the situation will not be equalized at all, even with payment of all the write-offs. On the other hand, we have organizations where their machinery is depreciated to 90 percent and more than half of the equipment is totally written off. Nobody is able to set down a simply unambiguous and objective criterion which will suit all the organizations; for this and other reasons this regulation included a delay as compared with the original schedule. A number of problems and conflicts had come up.

[HOSPODARSKE NOVINY] And as far as the 30 percent which is supposed to be centralized, will it be used to help the state budget?

[Kobes] Not at all. The law on the state enterprises says that the write-offs remain with the organizations. The proposed balancing out ends up with substantially a zero balance. Where the state budget gains something, it will use it to help out the developmental programs. But the state budget cannot contribute to this; there is nowhere



for it to take anything. If it did contribute, it would mean an inflationary source. Let us have no illusions that we can balance out capital assets down to the last decimal point. It is possible to balance them with a certain degree of precision and with a certain level of injustice for the individual organizations. We will not achieve a truly just equalization.

We have been speaking about one problem with capital assets. That is the problem of write-offs. But today another problem is showing up, possibly one that is more difficult to solve than the balancing out of capital assets. The results for the first 6 months after the restructuring of the wholesale and retail prices and after the restructuring of the organizational structure show the originally planned profitability to have been exceeded; instead of 4.5 percent, industry achieved a profit level of 6.1 percent in the first 6 months. The enterprises thus have resources available with which the price restructuring did not reckon. On the contrary, from the standpoint of the state budget, if there are higher wholesale prices, then in the case of deliveries for the market funds this means a loss in the turnover tax, in the case of deliveries for export it is lower efficiency, and in the case of deliveries of means of production this spells inflation. This obviously increases the problem with imbalances in the matters of which we have been speaking, but also in the deficit in the state budget.

[HOSPODARSKE NOVINY] The enterprises see it as downright unfair that they still do not know the rules of the game, including who will give up or receive write-offs and how much.

[Mrazek] We have to reckon on an attempt to equalize the bases in some manner and we would also like to have an idea of whether or not we are capable of self-financing in equalizing the capital assets. Currently, however, the rules about this which are known at the enterprises still make the situation more foggy. The rules for write-offs are still missing, and without them nothing can be planned. We cannot judge whether an enterprise is capable of self-financing. Our enterprise would need about 80 to 100 million korunas for investment annually in order to maintain a certain momentum. However, after the price restructuring we create 60 million in profits. At the given moment a kind of solution can come from balancing out the bases. But what then? And in the meantime we do not even know the write-offs for next year.

[Dusek] The material interest of enterprises in write-offs is also a given, based on the provisions of the law on state enterprises, which sets out that the write-offs remain the enterprise's to the full amount and the enterprise uses them in its sphere of authority. This limits one of the possibilities for the center to influence investment activities. However, it is possible to consider the possibility of accelerated depreciation through which we can acquire an economic tool to promulgate innovative activities, accelerate modernization and reconstruction, and acquire more rapidly our own resources, that is, certain

advantages. The authorization for increased write-offs means a reduction in the depreciation base for profits, but it also means the risk of allocations to the enterprise funds. This is thus a matter of a certain entrepreneurial intention where the enterprise wants something and justifies it with a certain activity. The center can thus, if it is in the interests of society, influence the acceleration of economic development.

[Vrba] Enterprises can today calculate the amount which they receive or give up as part of the balancing out of the varying capital assets in depreciating the production assets. This will be made more specific according to the status of the production assets on 1 January 1990. There will not be great differences between the amounts calculated today and the more exact amount for 1 January 1990. The key input which the enterprises need to consider the income situation is the amount of payments made into the state budget. The decision about the payments was made recently, and this created the conditions for a more precise calculation of the state enterprises' financial situation in the next few years.

[Kobes] In a well-managed organization the write-offs and subsidies from redistribution can be calculated with a high degree of precision. The problem is that to date enterprises have not been able to calculate the situation in the operational area precisely enough from the standpoint of self-financing.

[HOSPODARSKE NOVINY] But that is a great problem because the enterprises in that case cannot figure out any kind of future intentions. They do not know the payments, and they do not know what will be left to them.

[Kobes] This is true, but we took three steps all at once. We carried out a restructuring of the wholesale and retail prices and a restructuring of the production technical base, and we are carrying out a restructuring of the economic mechanism.

[HOSPODARSKE NOVINY] Let us approach this from another angle. It seems that the people who are saying that redistribution will still take a long time are right.

[Kobes] When we have lived in a system of redistribution for 30 or 40 years, we cannot say that in a quarter of a year we will entirely reject this system which has created equipped and unequipped enterprises and a number of other economic facts. This is why the law on state enterprises contains the authority for the government to take selective measures. The less of them we are able to apply, the sooner a system of management for the national economy aimed toward the target situation will develop.

I will repeat what I said once before. The designers of a railroad do not think of designing a 90 degree turn when they need to go off to the right because they know that the train would jump the track. But there are economists who think that they can perform such an act with the

national economy. When you rush the matter, then it takes a long time to make up for the damage.

[Vrba] Comrade director Kobes is right when he says that sharp turns are risky. But in a case where there is danger that we will run off the road we want to travel, or there is even a threat that we will end up some place that we definitely do not want to be, then a sharp turn is unavoidable. It must, however, be well thought out and must respect the natural laws which act objectively in economics. Just as in physics and the other natural sciences, we must respect them in economics if we wish to avoid failure.

[HOSPODARSKE NOVINY] Comparisons are often lame, and redistributions should take place by the end of the Ninth 5-Year Plan, in 7 years, rather than in a quarter of a year. And as far as the tracks are concerned, what if there is a hole in front of them? Then it would be better to turn off the tracks to redistribution and to balancing out the production base level.

[Vrba] I want to get back to what comrade director Kobes says about the danger of a poor state and rich enterprises; the truth is that if the enterprises get richer, then so does the state and if the enterprises get poorer, then the state finally gets poorer too. Taking resources away from the enterprises through high taxes must be considered to be an exceptional short-term measure, not a continuing measure, but a measure that reacts to errors in the economic mechanism. The rule that high taxes equal a slow economy applies here. Our situation, however, is such that we need to change the direction of the economy, and we need to do it in the right direction. But this means a tax policy which leaves the enterprises enough resources for development and regulatory measures that orient the economic policies of the enterprises toward the desired structural changes.

[Pauker] The enterprises which receive subsidies through redistribution will put them into the development fund. This will give us the capability of making changes in the production factors. The investment possibilities in the economy are limited. What will happen? That will depend on the economic management and on where they put the resources to work—in investments, in supplies, in technical development, or even indirectly in the compensation fund. But I want to point out again that these subsidies through redistribution for the balancing out of capital assets still do not mean that we are solving the problem. It is only a certain alleviation of the differences which have arisen in the past.

[Hojdysz] It is important for the enterprise to know what is going on. The earlier that we know this, the earlier we can figure out an approximate concept for the Ninth 5-Year Plan and determine what will be available for investment.

[Dusek] Even at the current time we can calculate the income situation in each enterprise with a certain degree of precision. If the enterprise has an effective developmental and entrepreneurial intention, we should want to

help it by helping to find resources which, of course, will be paid back. Each enterprise should have the same conditions and should not have to pay for earlier policies of high taxes and "settling accounts" on loans in the form of payments. And what can most complicate the activities of the enterprises are subjectively established supplemental taxes, and unsystematic redistribution. Our policies toward the enterprises should generally be guided by a goal of stimulating activity, certainly over a policy of restrictions or taxes beyond the standard and normal relationships.

[Kobes] The state's involvement in organizations' entrepreneurial activities must be in consonance with what the system expects, that is, the state must do what the individual state enterprises cannot do. This means certain macrochanges in structure which exceed the capabilities of the state enterprise. I am speaking of the target status, not about the temporary measures such as the balancing out of capital assets. Selective actions by the state should be limited, because there is a danger of subjectivism and a return to what we had in the past. The state's actions should be to ensure that selected fields have priority for credit and that work should start, for example, on accelerated depreciation, which is nothing other than a tax rebate on the tax on profits. A tax reduction also comes into consideration, or interest payments from the credits provided, etc.

[HOSPODARSKE NOVINY] And a last question: Will it be known who will get how much? I am asking not only about the 70 percent, but also about the remainder.

[Kobes] The centralized depreciation account of the state budget will be utilized. This means that the taxes will fall in the area of taxes for the state budget, after all is said and done, since they are controlled by the finance administrations. The claims correspond to a system of subsidies from the state budget. Thus it will be clear who gets what.

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It is no wonder that the enterprises are interested in this question. Many authors in their articles state that the average age of a machine in their enterprises exceeds 20 years, and they otherwise report an unpleasant situation. This is caused by high taxes on profits and taxes on write-offs. According to calculations thus far, using figures for 1988 and a zone of no action of plus or minus 5 percent of the average level of depreciated fixed assets in centrally managed economic organizations (last year 44.6 percent), there will be 229 subsidized organizations and 155 making payments with the subsidies amounting to 24.488 billion korunas and payments of 29.663 billion. The difference (5.175 billion) is available for selective utilization. There is a certain question mark around those resources. This obviously stems from the fact that the balancing out of capital assets is necessary, but not systemic, and does not involve a form of economic management. So one is not supposed to look at the debt burden, but the deputy of the planning commission

allowed for the possibility of selective subsidies in the case of an exceptionally high debt burden. This raises the danger of subjective exceptions on the basis of clever justification or even on the basis of sympathy, as is well known from our economic life in the past.

These 5 billion are also supposed to help in changes in the structure of support to selective fields with good prospects. The intention is certainly correct, but the structure must at least partially be "boiled down" both according to usage, that is, interest in a given product, and also according to the capabilities of the appropriate enterprise. Subsidies are one thing and their effective usage is still another. How do we ensure the proper use of resources expended in this way? Measures by the CSSR government should provide answers to this and other questions and rules for calculating taxes and subsidies; a proposal for this was supposed to be submitted by the end of September. In this connection it is necessary to repeat the enterprises' request to know in a timely manner what is going on.

## GERMAN DEMOCRATIC REPUBLIC

### Bezirk Official Queried on Supply Inequity, Environment

90EG0062A Halle FREIHEIT in German  
1 Nov 89 pp 3-4

[Interview with Alfred Kolodniak, chairman of the Halle bezirk council, by correspondent Stefan Lehnbech: "Competent Answers to Citizens Questions. Environmental Data for Citizens of Halle—Less Construction in Berlin"; date and place not given]

[Text] [FREIHEIT] The dialogue which was initiated with the change is now in full swing. When and where will you look to hold a discussion with the people of Halle?

[Kolodniak] Where the people of Halle and, of course, all the citizens of the bezirk work and live, argue, and debate—in short, where people, the focal points of life, are. Early this morning, for example, it was in traffic, because transportation questions are particularly pressing issues at the moment. Then tomorrow evening it will be at the town hall meeting, to which the lord mayor has invited everyone every Thursday to discuss special topics. In the same way, I consider this form of dialog to be an effective method of conducting a discussion, because changes can be introduced as the result of a relevant debate.

As far as Monday's demonstrations in Halle are concerned, an attempt was made on 23 October, through the lord mayor and his city councillors, to hold some form of discussion on the street. The success of this type of debate has met with different reactions. As a result, we should consider together whether it is really sensible to start discussions on the steps of city hall right away or

whether, as suggested in the lord mayor's list of proposals, people should meet after the demonstration on other days in different rooms to discuss various topics with knowledgeable participants, where the doors have to be open to everyone.

However, we should not lose sight of the fact that, in addition to the debate, there must be time for all those who bear the responsibility to put into effect what everyone has identified as being correct. Talks must not degenerate into endless discussions.

[FREIHEIT] Open doors for frank words is a demand of the democratization of public life, ushered in by the change. How open are the doors of the bezirk council?

[Kolodniak] More open than ever before, although by the same token they were not really closed before. However, I do admit that many things were in a rut, a lot of bureaucracy had crept in, both of which do not reflect well upon us. Once again, there is a clear directive from me that every Tuesday from 0900 to 1800 all council members must be available in person to all citizens—with or without an appointment. That is what an entire day of office hours is for. We will also not turn away anyone who picks another day for a discussion. What applies to the bezirk council, I expect likewise from all municipal councils in the bezirk.

But this open door policy is not just meant to be taken literally. It refers primarily to the way people are treated, whether they have the feeling that we are there for them as servants of the people, or whether they are bothering us with their problems. And it also refers to whether their concerns and problems are adequately reflected in the plans passed by the popular assemblies, that the changes for the benefit of people become evident and are not bogged down in fantasy expansion plans, bureaucracy, and formalism.

[FREIHEIT] What will be the actual effect of this new style of dealing with one another on the work of the Bezirkstag? Should the next meeting not be called for earlier than December and be public, open to everyone?

[Kolodniak] On 16 November an extraordinary session of the Bezirkstag will be held. It will start at 0930 in the union club house in Halle and it is public, open to everyone. Guests can ask questions in the course of the meeting.

Because we are anticipating great interest, we will broadcast the conference in all the clubhouse rooms. We are also offering a direct transmission to the Halle radio station.

This week I am preparing this session of the Bezirkstag together with the presidents of all the standing commissions and other representatives of those who have been given a mandate, because I, in my capacity as council president, like Egon Krenz in the People's Chamber, would like to present the result of a collective opinion. In the committees themselves discussions are already



underway as to how the effect of citizens' initiative groups can be melded with their activity to prepare the resolutions of the popular assemblies on an even broader foundation.

[FREIHEIT] Some of the questions that constantly come up demand an answer, at least in conjunction with setting goals for 1990. Time is pressing. What is your answer to the desire of many Halle citizens: Stop the policy of demolition in this city?

[Kolodniak] In exactly the same way as the lord mayor of Halle, I take the recommendations for the preservation of restorable buildings very seriously. I am proposing the formation of a mixed commission, which will examine existing plans for demolition. Representatives of the city council and the construction companies, architects, and concerned citizens should be involved. Naturally, demolition must continue, based on the structural condition of many buildings and from the aspect of the efficient use of the technology available to the housing combine.

I would also like to inform you that the bezirk construction authority has made a motion for a substantial increase in the number of building repairs for the coming year—and not just statistically, but tangibly on behalf of people, that will be visible in the city panorama.

The harmonogram for new construction for next year is also being revised once more. We must reach an agreement that a concentrating more on repairs and rebuilding means less new construction. We will have to stand behind decisions of this kind together. Anyone who is not clear about that, will not come up with any kind of realistic plan.

[FREIHEIT] A great deal of the construction capacity in the bezirk is tied up in Berlin, while many buildings are decaying here. How long is that supposed to continue?

[Kolodniak] This year the bezirk Halle is spending M 167 million for construction. For next year our capacity will be reduced to 84 percent, according to earlier projections. We are not happy with that.

Naturally we cannot throw out the baby with the bath water. In Berlin we obviously do not want to leave any ruinous investments standing. Consequently, we want to complete the construction that has been started, but we do not want to start any new residential complexes. The same holds for industrial projects.

The direction of our plans is to use the capacity from every kreis in our bezirk, which was intended for the expansion of businesses in the Friedrichstrasse, in our territory. We plan to reduce the bezirk's capacity for the sewage treatment plants in Berlin-Nord and Wassmannsdorf. We have presented all these proposals to the central state organs and, in doing so, we brought up the poor structural condition of many buildings in the bezirk.

[FREIHEIT] What are the immediate measures in the area of environmental protection?

[Kolodniak] At the forum in the Volkspark in Halle there was a proposal to establish an appropriate advisory office, and a demand for the publication of previously confidential environmental data. The appropriate advisory office for citizens, factories, and institutions will be in place starting next Monday. Beginning next week we will also regularly publish environmental data, such as air and water pollution, and we are certainly looking to the mass media to be cooperative partners in this endeavor.

[FREIHEIT] The Minister for Health mentioned that 50 percent of the wage fund for the doctors and nurses who have left our country for the FRG can be used to stimulate the performance of health service workers. Assistance is also supposed to come by way of army units. How will all of this be managed in the bezirk?

[Kolodniak] In health services we have lost about 520 workers in this way this year, including approximately 200 doctors. Of course that is right at the threshold of pain and beyond. We have decided to apply the half of the full amount of the unused wage fund to stimulate performance, and not just 50 percent of the wage fund to which your question refers. But the rigorous reduction of the bureaucracy will also make things a great deal easier for the doctors.

We are looking to extend the activities of the NVA [National People's Army] through cooperation with students and assistants from the DRK [German Red Cross], the DFD [German Peace Society], and the FDGB [Free German Labor Union Confederation].

Just to return to the subject of the wage fund. We are pursuing a similar path in other areas that are particularly hard hit—such as transportation, trade, and meat processing.

[FREIHEIT] What is your reaction to the demand to reduce the administrative apparatus by 10 percent and to use these workers primarily to improve the infrastructure?

[Kolodniak] The answer to that question is already contained in the resolution of the bezirk meeting of 29 June this year and a directive from me of 10 October 1988 with instructions for a hiring freeze in the local state apparatus. The local councils in the bezirk have about 13,200 workers. This number could be reduced by about 10 percent. We intend to reduce overall administrative expenses by one-fifth. But not by using the watering can approach, but in accordance with social needs. No one would dream of reducing the departments for housing policy. The manpower situation in the bezirk has naturally become more critical because of the 5,338 employees who have transferred to the FRG. The first immediate measure is to transfer 100 employees from city departments to the bezirk health services.

## HUNGARY

### U.S. Minority Share Optical Store Opens in Budapest

25000541D Budapest NEPSZAVA in Hungarian  
15 Nov 89 p 1

[Text] Mark Palmer, the U.S. Ambassador to Budapest, has dedicated a new optical store at 13 Museum Boulevard in Budapest. It is the first store of the Optinova Hungarian-American joint enterprise.

Ofofert representatives signed an agreement with the New York optical firm Osmann Trading last summer. The Hungarian firm is providing 51 percent of the founding capital. The foreign partner is providing modern machinery and equipment. The selection is great, and even the most demanding customer can find glasses for himself. The least expensive frame costs between 600 and 700 forints, while 22,000 forints will have to be paid for the most expensive one. Eye examinations, the grinding of lenses, and the assembly of eye glasses will be performed at the same location.

The limited liability corporation made a promise to the effect that those in need may obtain even the most complicated prescription glasses within 24 hours. However, one will have to pay for special processing. On the other hand, a simple lens will cost the same as in any Ofofert store.

### General Electric, Tungsram Stock Purchase Discussed

25000551B Budapest FIGYELO in Hungarian  
23 Nov 89 p 10

[Interview with Andras Gabor, Tungsram chairman of the board, by Erzsebet Eller: "Hungarian Credit Bank Stock Repurchase Obligation Discontinued; What Does Tungsram's New Owner Promise?"; date and place not given]

[Text] Rumors proved to be true: The Austrian Girozentrale (which leads the consortium of Western banks, and which owns 49.65 percent of Tungsram stock) is selling its ownership rights. Moreover, it is selling its stock to Tungsram's largest competitor: the American General Electric Company. This has taken place, even though last May, when the banks purchased half the Tungsram stock, they agreed not to sell that stock for 3 years, and not to a competing firm or firms. True, in an odd way Tungsram's other major owner, the Hungarian Credit Bank [MHB] at that time guaranteed to repurchase the stock. It was no coincidence that many talked about a covert lending action, because nowhere in the world has a stock purchase of this nature occurred before. We asked Andras Gabor, chairman of the board at Tungsram, what is in the background of these new developments.

[FIGYELO] How much of its Tungsram stock is Girozentrale selling, and why is it selling that stock?

[Gabor] According to the joint enterprise agreement reached between the parties involved and the MHB, General Electric [GE] would purchase 50 percent of the Tungsram stock plus one share for \$150 million. In addition, GE receives a prepurchase option to purchase an additional 20 percent of the stock prior to 1996. Thus far, GE has insisted on majority stock ownership in all of its transactions, meaning that it insists on the management of joint enterprises. According to information I have, Girozentrale, which purchased the stock in May for \$110 million, intends to retain between 10 and 12 percent of the stock it holds. One may ask why it is selling the rest of the stock. According to Girozentrale's original intentions, the banks would sell ownership rights to firms specializing in production and sales within a few years, in hopes of realizing gains resulting from the appreciation of the stock. Tungsram should have gained some strength during those few years. As the difference between the \$110 million and \$150 million figures indicates, Tungsram stock has already appreciated. Therefore, when GE inquired at Tungsram about a possible association, it came naturally for us to advise them to discuss the matter with Girozentrale.

[FIGYELO] Are you not concerned that the huge American firm purchased Tungsram in order to exclude competition, and that it will shrink Tungsram? This would not be the first case of this. And I wonder whether MHB continues to maintain its obligation to repurchase the stock from GE? Because if this is the case, MHB may have to pay an excessively high price....

[Gabor] The MHB's obligation to repurchase the stock has ceased. And as far as GE is concerned, it is GE's clear intention to establish a production unit in Europe—it does not have one!—and to supply the European market from this base, thus saving transportation costs. As the largest owner, it is in GE's interest to recover the value of the capital invested, therefore one may rule out the possibility that GE has condemned us to be shrunk on the vine. Incidentally, the joint enterprise plans to unite the European lighting source sales outlets of its members, and to sell both Tungsram and GE products through their common sales network. Here in Hungary the joint enterprise plans to manufacture and sell household light bulbs, energy efficient fluorescent lamps, miniature halogen lights, infrared lights, as well as an entire family of auto lamps. General Electric Lighting, GE's \$2 billion sales division headquartered in Cleveland, offers its expressly commercial, industrial, and special lighting products for manufacture in Hungary. GE promises to invest significant technological and intellectual resources in the joint enterprise, and will yield its state-of-the-art technology to Tungsram.

[FIGYELO] It is nice to hear these things, but similar promises were made last spring when Giro purchased the

Tungsram stock. Did they contribute managers and developed technology? To what extent were these promises fulfilled?

[Gabor] They were not fulfilled at all. Thus far we have agreed with the West German Roland Berger & Co. firm to prepare a Tungsram development strategy. This work will be completed soon. But it is likely that the new owner will want to realize its own conceptions. Nevertheless I would like to supplement your question, because the way it was posed may serve to misinform your readers. The enterprise has made great progress by virtue of its own strength. As compared to last year's profits of 233 million forints, this year we will achieve the targeted level of 1.4 billion forints. In the framework of our cost reduction program we reduced our expenses by more than half a billion forints. Beginning on 1 July we froze the employment level in the administrative area. While 21,400 people worked for Tungsram 5 years ago, today we have only 17,300 employees, and slowly we will reach the optimum level of between 15,000 and 16,000 people. Our solvency problems have also been ameliorated.

[FIGYELO] And what can you show as an accomplishment in the developmental field?

[Gabor] Product development has been enabled by the transformation from the outset; without that we could not have increased our sales by 12 percent. (This is because two-thirds of our products are sold in the market where account balances are settled in convertible currencies.) As far as I know, Tungsram is first among socialist enterprises to be able to obtain a business loan based on its own strength, as we received a 20 million West German mark loan from Deutsche Bank. Surely, it took us a tough 10 months to negotiate this loan, because our partner wanted to have a Western bank guarantee, and checked our sales. Hermes, the West German insurance company, guaranteed the loan we used for the purchase of machinery. We are using this money to purchase assembly machinery needed for the manufacture of light bulbs, we will rebuild the glass works at Vac, and will modernize our parts manufacturing.

[FIGYELO] Tungsram's serious solvency problems are publicly known. It was here, within the enterprise that I learned that MALEV had refused to sell airplane tickets to your employees on credit, and as a result your employees had failed to appear at a business meeting. All this could also have been learned by the management of the West German bank. Under what conditions did they grant the loan nevertheless, aside from the already mentioned guarantees?

[Gabor] The fact that Hungarian enterprises are "standing in line" waiting for payments on their outstanding receivables is at least as well known as Tungsram's solvency problems. The fact is that the amount of our receivables substantially exceeds the amount that was needed by us to achieve solvency. We have both Hungarian and foreign debtors. And the loan was granted to

us at favorable terms, at 8.5 percent in 4 years. Obviously you must be aware of the essence of stock corporations, including the fact that the board of directors directs the firm, and that the members of the directorate are held accountable by the owners. We must publicize our data, and we could not cover up our losses even if we wanted to—the way many Hungarian enterprises are able to do. Our financial statement for this year was audited continuously, in each quarter by Price Waterhouse. They appraised our property at \$203 million. We sold 50 percent of our basic capital for \$150 million. Thus one may conclude that GE had high expectations concerning our hoped for profit rate.

[FIGYELO] You mentioned the board of directors. How come the five places reserved for Western managers have not been filled to date on the nine member board?

[Gabor] This has no effect on the workings of the board, because we were able to fill two of the seats and the more important positions by enlisting truly appropriate Hungarian professionals. We must reinforce the financial and technical-technological areas by acquiring foreign managers. Just why did those five seats remain vacant? I, as chairman, am an employee just as the rest, the owners who must select the appropriate people. Although we have been in touch with a "headhunter" firm, one that finds executives for 100,000 marks, our owners have not yet found the right persons. Quite obviously, this will present no problem to GE, because it is a firm that specializes in this business. They will control the board of directors, but the chairman will continue to be Hungarian, and I was the one who received the first assignment from the new owner. On the other hand, a foreigner will head our European commercial organization.

[FIGYELO] I understand that a holding corporation for Tungsram interests came about in July....

[Gabor] We struggled with the Hungarian authorities for a year and a half before we were able to realize this. The essence of this is that our numerous foreign enterprises may transfer capital to each other, and that within the holding we may accumulate our money in convertible currencies. And we hired a professional firm to work out a way in which we can take advantage of different tax benefits offered in various countries. As a result of the latter, \$500,000 may be saved during the first year. The holding also includes a marketing organization being established in Switzerland. It will move its merchandise supply among our enterprises, so that large inventories need not be accumulated in each place.

[FIGYELO] What are the conditions for having your stock quoted at the large stock exchanges of the world?

[Gabor] A financial statement that has been audited for at least 3 years—ours will be audited for the first time this year. And quite naturally, the enterprise's financial situation must be strengthened.

[FIGYELO] Are you planning to issue stock for your workers? Incidentally, your workers say that the promises were fulfilled at least in one respect: They received a decent wage increase.

[Gabor] We are planning the issuance of such stock, and in principle our owners support this action. Moreover, our workers will be able to buy such stock at preferential prices, and in lieu of cash we will provide premium payments to our key employees in the form of stock.

Significant Tungsram Business Data		
(in millions of forints [Ft] and millions of U.S. dollars)		
	1988	1987
Net sales	15,647Ft	14,338Ft
	\$298	\$309
Net profits	161Ft	86Ft
	\$3	\$2
Domestic production	14,861Ft	14,608Ft
	\$283	\$315
Total basic capital	8,124Ft	5,721Ft
	\$155	\$123
Number of employees	19,495	20,440

#### Austrian Purveyor of Fine Foods Makes Nostalgic Return

25000548E Budapest NEPSZABADSAG in Hungarian  
7 Dec 89 p 5

[Article by G. Zs.: "Csemege-Meintl Joint Enterprise"]

[Text] Julius Meintl, president of the firm of the same name, whose grandfather established the longstanding industrial and commercial chain in 1862, has signed a joint enterprise agreement with Csemege President Istvan Kun, and with Monimpex. The latter participates in the business to an extent of 3 percent. The agreement provides that the 24-hour Csemege department store will be reconstructed and that the two companies will begin joint sales in the renewed premises.

In justifying the decision, Istvan Kun said that relations between Csemege and Meintl have existed for a decade. Thus far they have opened only corners in each others' shops, and Csemege's new employee training system was based on a program learned at Meintl. At present three Csemege stores have Meintl corners, and Csemege has the same number of corners in Vienna. At present, however, they have established the joint enterprise in order to acquire technology, technical support, and capital, to expand the domestic supply of goods, and to improve the commercial culture in Hungary.

Julius Meintl made no secret of the fact that not only potential profits, but also nostalgia guided him in making the decision. He recalled that his firm had survived a few changes in regimes, and in the meantime

had been able to expand operations from the Black Sea to the Baltic states. He justified the fact that they are appearing in the form of a joint enterprise in Budapest—although nowhere in the world do they participate in joint ventures—by saying that the firm believes in Hungary's future and in the fact that Hungary needs whatever Meintl knows how to do.

The parties to the agreement did not reveal the prices at which the specialties will be offered, nevertheless Deputy Commerce Minister Dr Ferenc Spilak announced that 90 percent of the food products will not be subject to price controls. Responding to a NEPSZABADSAG question as to whether Julius Meintl will take home his profits, or if he will use his profits to make additional investments in Hungary, the president of the firm had this to say: "Let's see the profits first."

#### Ruble Exchange Auction Organized

25000541E Budapest HETI VILAGGAZDASAG in Hungarian  
18 Nov 89 p 9

[Unattributed article: "Ruble Exchange in Budapest"]

[Text] Henceforth the Hungarian Foreign Trade Bank [MKB] will hold a ruble Exchange once a week, and even more meetings of the Exchange will be called if demand for the purchase and sale of rubles in the form of an auction increases, according to Andras Schmied, MKB division head. The purpose of this action is to decrease the huge Hungarian transferable ruble surplus which has evolved as a result of trading with CEMA countries, in particular with the Soviet Union. According to Exchange rules, enterprises holding export licenses, or those which agree to import products not within or above the contingent, or which are not part of barter transactions, may buy or sell transferable rubles. At any one occasion the enterprises may make only a single offer to buy or sell, but such an offer must call for a minimum of 10,000 rubles. Firms which perform export transactions outside of interstate agreements are exempt from paying production taxes, thus it is worth selling the rubles at a price 20 percent lower [as published]. The potential clientele is composed of firms which found goods somewhere within CEMA they could purchase for transferable rubles, but since transferable rubles are too expensive they cannot purchase those goods unless they find a source for cheaper rubles. It is likely that at the Exchange the ruble exchange rate will be different from the 27.5 forint rate. A day before the first ruble Exchange on Wednesday, between 30 and 40 enterprises expressed interest in this operation.

#### Government Approves Legislative Proposal on Privatization

##### Symptoms, Diagnosis, Proposed Recovery Path

25000550 Budapest HETI VILAGGAZDASAG in Hungarian  
25 Nov 89 pp 68, 70

[Article by Deputy Ministers Istvan Farkas, Zsigmond Jarai, and Henrik Auth, the apparent framers of the



privatization law (ministries are not given): "Privatization: Charting the Course"; first paragraph is HETI VILAGGASZDASAG introduction]

[Text] Exclusive state ownership which has crippled individuals both in an economic and a political sense, which has strangled initiatives and has served as the hot bed for disinterest and waste, must be liquidated. But the manner in which it is liquidated does make a difference. The three authors of the following article—each a deputy minister—reject the present spontaneous form of handing over state property to private parties, and describe the conceivable rules for proprietary reform.

Based on the Law on Transformation, but more often circumventing the Law on Transformation, there began, and then continued at an increased pace, a spontaneous transformation, privatization process which materialized in the form of the actual or apparent sale of state enterprises. This process has evoked significant, often justified hostile feelings on the part of professionals as well as the broader public, and may be subject to criticism in several regards:

- Transformations take place with the exclusion of the public; investors are not presented with equal opportunity. A real exchange of ownership does not take place; a system of cross ownership and of "phantom" owners is evolving, enterprises being transformed choose their new owners. Thus, a chaotic proprietary system based on the intertwining of interests is evolving.
- Privatization takes place in the absence of a genuine appraisal of property. Virtually all participants in the transformation process have an incentive to assign a lower than market value to the property.
- In the course of selling state property there is no opportunity for the state to exert an initiative or influence, and no state revenues result from the sale.

The following describes the most important theses of a privatization system which we believe to be appropriate, and which differs from the present system of privatization.

The basic precepts are as follows:

- (1) Ownership functions are fundamentally separate from enterprise management functions.
- (2) The present owner of state enterprises is the state, or more accurately, society, in the final analysis. This owner may be personified by the Parliament, or on the basis of the delegation of legislative authority by the government, or by the so-called State Trust Fund (AVA), if it comes into being. The owner cannot be personified either by enterprise management or councils, or by branch ministries or the Ministry of Finance.
- (3) An enterprise may be sold only by its owner, and not on the basis of the owner's assignment by the manager or enterprise council directing the enterprise.

(4) Proceeds derived from the sale of state enterprises belong to the owner, meaning to all of us. Parliament may decide concerning the utilization of these proceeds. Such a decision may establish the foundation for e.g. tax reductions or capital investments needed to stimulate entrepreneurship.

(5) State enterprises may be sold only after an appropriate property appraisal, and after publicizing information concerning the operations of the enterprise, publicly, by providing equal opportunity for all potential investors. Only the members of one group among the buyers may enjoy an advantage. These are the workers at the enterprise. In every case stock must be sold to the workers at the enterprise at preferential prices and by offering to the workers an opportunity to make installment payments free of interest. (One possible solution would be to permit enterprise workers to make a 20-percent down payment on the stock purchased, then grant to these workers 5 year interest free loans for the remaining 80 percent of the stock price, with due consideration to investment tax benefits. In reality, then, dividends received would cover the installment payments.)

(6) Transformation and privatization may proceed only gradually, in step with market demand. The sale of enterprises operated at a loss for decades, wanted by no one, need not be forced. The sale of stable, high profit enterprises should be encouraged instead. These may include banks, insurance companies, outstanding industrial enterprises, and service providers, such as hotels.

On the basis of these theses, the recommended method of operating and selling state enterprises is as follows:

- The operating and management system of fully state-owned enterprises would not change; if the enterprise does not transform, its owner will remain the same. Enterprises managed by autonomous governing bodies would continue to be managed by enterprise councils or by general meetings and delegate meetings whichever the case may be, while enterprises managed by state administrators would be directed by leaders appointed by the respective ministries. In regard to these enterprises, the system that evolved on the basis of the 1984 enterprise law would remain unchanged. (Even though this system is also the subject of a number of just critiques, there appear to be only two consistent ways to change it: "renationalization," representing a return to the already rejected state ownership forms, and privatization, in the direction of which we intend to proceed gradually.)
- If, for some reason an enterprise intends to accomplish transformation, or if privatization takes place, the AVA will personify the owner. AVA exercises this authority as a delegated legislative power.

Transformation, privatization (sale) may be initiated by an enterprise and by an enterprise council, by potential buyers, or by Parliament upon recommendation by AVA.

In the framework of the annual budget law, Parliament approves the targeted level of revenues to be materialized from privatization during the fiscal year, as well as the most important basic principles. Possibly, Parliament could also render decisions concerning the sale of a few specific large enterprises. Thereafter, it would be AVA's task to designate the enterprises for sale or to agree to announcements of candidacy for sale, to commence sales proceedings, and to assign the technical implementation of sale. AVA's presidium—the body that renders final decisions concerning the magnitude of the part of property to be sold, the group of potential buyers, and the selling price—may include representatives of the governmental organs affected by privatization (National Planning Office, the Ministry of Finance, the Hungarian National Bank, the Ministry of Industry, the Ministry of Commerce,) as well as of elected bodies (the Chamber, the Banking Association). The AVA apparatus would have a small staff which prepares decisions and coordinates technical implementation, but would not be involved directly in these matters. AVA does not buy enterprises, it does not take part in entrepreneurial activities and does not manage any kind of property. Its function is to accomplish transformation, to organize the implementation of the sale of enterprises, to assign parts of property that remain state property for property management purposes, and to annually hold accountable the property managers (holding corporations), as well as to report to Parliament and to the State Accounting Office [ASZ].

Accordingly, AVA is responsible for the implementation of the sale, but the technical aspects of implementation are accomplished by some financial institution or property management organization, as authorized by AVA. The indispensable steps of a sales transaction are as follows:

- Property appraisal;
- Transformation of the enterprise into a stock corporation;
- Definition of part of the enterprise to be sold (an enterprise could be sold in part or as a whole);
- Definition of the group of eligible buyers (pursuant to our proposal 10 percent of the enterprise stock to be sold would be sold to enterprise workers and to enterprise management at preferential prices; the remainder would be sold to Hungarian private persons, foreigners, or Hungarian institutional investors, allowing free competition bidding if needed. An advance determination of the ratio between various types of buyers is also conceivable);
- Decision as to whether the sale should be closed or open (as a general rule a sale should be made in the open, but in special cases one should be able to elect a closed form of sale, at the initiative of a large foreign investor, for example);

—Composition of information concerning the enterprise, preparation of informational literature, (in case of an open sale this literature must satisfy the requirements established in the securities law now being prepared, but also in case of a closed sale—"private placement," to use the English term—the fundamental informational requirements must be prescribed);

—Definition of the selling price (this depends fundamentally on the value of the property, on the enterprise's position in the marketplace, and on demand manifested for the stock);

—Marketing of stock by using banks or firms specializing in the securities trade as intermediaries;

—Deposit of the proceeds to the budget;

—Transfer of that part of the enterprise which may have remained part of state property to a state property manager (holdings) for the purposes of operation;

—Report to the government and to Parliament (or to ASZ) concerning the sale of the enterprise.

If part of the stock—or all of the stock, in an extreme case—of a transformed state enterprise remains the property of the state, these shares may be managed by some property management holding authorized by AVA, (but the authority of holdings does not extend to state enterprises which were not transformed).

The above-described model, except for the operation of fully state-owned enterprises under the management of enterprise councils, is fundamentally consistent with the privatization model generally followed in other European countries. Its legal framework is very close to laws presently in force concerning enterprises, transformation, and business organizations; its spirit is responsive to the concepts of AVA and privatization laws now being prepared, and is politically and societally acceptable. It does not fully upset the situations and processes that have already evolved, and it does not intend to "renationalize" everything; at the same time, however, it does not permit the dispersion of state property. From a technical standpoint it can be implemented easily, the needed rules and organizations can be developed with relative ease, since most of these exist already.

#### **Government Commissioner's View on Proposal**

*25000550 Budapest HETI VI LAGGAZDASAG in Hungarian 9 Dec 89 pp 4-5*

[Interview with Janos Martonyi, government commissioner for privatization, by Gyorgyi Kocsis: "Legislative Proposals Concerning Privatization: Let Capital Reign Over Us!"; date and place not given]

[Text] Today 92 percent of productive assets, more than 2,000 billion forints worth of capital, is in the hands of the Hungarian state. The future of the economy depends on the "denationalization" of a larger part of this mass of property. Without exaggerating, the task may be termed

historic. The legislative package concerning privatization will place the roof on top of the structure that consists of the Law on Business Organizations enacted last January, the Law on Transformation that went into effect in midyear, and the securities law which comes before Parliament in December. Last week the government approved two important elements of the privatization package: one concerning the state trust and the management of assets, and the other concerning the protection of state property. The package is expected to be submitted to Parliament in January. Government Commissioner Janos Martonyi replied to HVG's questions.

[HVG] In those days the framers of the Law on Transformation labeled that work as a legal provision of strictly technical character. They stressed that the law itself was far from constituting proprietary reform. At this time, however, not even the legislative proposals concerning privatization reveal just how the ownership structure looks, the structure the framers would like to aim for.

[Martonyi] Indirectly these proposals also reveal the essence of the government's proprietary change policy: Over an extended period of time, private property in the competitive sphere must acquire a dominant role. This is supported on the one hand by the fact that as historical experience demonstrates, the state is a bad owner, it is incapable of operating its property in an efficient manner. On the other hand, there is no historical example for linking a democratic political system to centrally planned management, and to excessive state property. Nevertheless, I do not feel that it would be timely to discuss just exactly what percentage will or should be the ratio of state property in Hungary. The essential matter is that we return to the natural developmental track of the economy and society, and this will formulate the respective proportions of state, private, settlement, and autonomous government, foundation and other forms of ownership.

[HVG] If, on the other hand, the state wants to provide leadership to these processes, it should at least have some ideas in regard to two matters: which sectors should remain under state ownership, and which sectors should be rendered off-limits to foreign capital. The establishment of these principles is an organic part of privatization processes in a number of Western countries.

[Martonyi] Our task is more difficult, in that in contrast to capitalist countries, we would not want to "denationalize" a well defined segment of enterprises. We want to denationalize the entire system instead. With this, a response must be given, indeed year after year, to the question of what areas in which the state wants to become actively involved in privatization, and on the basis of what viewpoints—to spur competition, organizational transformation, etc.—and in what cases the state is obligated to interfere in transactions involving its property. All these matters can be, and must be spelled

out in annual guiding principles for property policy to be presented to Parliament by the government. The principles applicable to 1990, together with the legislative proposals, will be submitted to the National Assembly in January. As for myself, however, I feel that the role assigned to the state in privatization itself is equally essential. The key institution of the organizational system now taking shape would be the AVA.

[HVG] Judging by panic reactions expressed by a certain group of enterprises, and by the Economic Chamber's most fervent protest thus far, AVA will be a super power expressly called into being to trample into the mud the autonomous governing bodies of enterprises, and to devour enterprises. In reality, what place does this organization occupy within the "power sphere" of Parliament, the government, the ministries, and the enterprises?

[Martonyi] AVA would exercise ownership functions exclusively over state property in a corporate form, i.e. it would exercise control over stock owned by the state. It would not exercise ownership rights over other state enterprises. Accordingly, all that takes place is that while the rights of enterprises remain unchanged, within a defined group of enterprises the thus far dispersed founders' rights would be transferred from the ministries to this central organization. Thereby the state's role as a public authority and as an owner would become separated. Plans call for the election of the AVA chairman by Parliament, while oversight would be exercised by the government.

[HVG] What concerns enterprise managers even more is that according to prevailing perceptions the AVA would not only perform the transformation of enterprises under state administrative control into corporations, and would not only sell these corporations in parts or as a whole. Instead, AVA would be capable of taking the initiative with regard to spontaneous privatization, referred to as "silent ownership reform": It could initiate action to place the presently autonomous enterprises once again under state administrative direction, and could supervise enterprise efforts to form corporations.

[Martonyi] The enterprise law now in force provides an opportunity for such a change in status to Parliament. At present, the issue is that this authority would be assigned to the Council of Ministers—not AVA, that is—but as long as the National Assembly approves the above-mentioned annual property policy principles, there will be little room left for "arbitrary" action. Moreover, the proposal states that the government could place an enterprise under state administrative action only if it converts that enterprise into a corporation within a year.

[HVG] This seems to be insufficient. It should be prescribed that the state be obligated to sell within a limited period of time. Without such a provision, state-owned stock corporations would accumulate in the hands of AVA.

[Martonyi] Selling is AVA's main task. To put it somewhat bluntly, AVA will function well if within 8, 10, or 12 years it eliminates the basis of its existence, meaning that it sells the state property. The fact is that it would be part of AVA's authority that if no public tender is announced, AVA would have to learn on the basis of mandatory reporting about all endeavors to organize corporations in which a state enterprise participates with a capital contribution of more than 10 percent of its total assets, (or with value exceeding 20 million forints). Such agreements must be preceded by a mandatory property appraisal. The enterprise may enter into the corporate agreement if AVA does not react within 30 days from the date of the report. If AVA has any suspicion concerning the realistic nature of the property appraisal, it may order a new property appraisal at its own expense, or it may obligate the enterprise to announce a public tender. Incidentally, an enterprise may eliminate the entire reporting process if, from the outset, it announces a public tender. In such cases AVA would have nothing to do with the entire transaction.

[HVG] In the end, will spontaneous privatization, or privatization guided by the state be the dominant mode, in your view?

[Martonyi] I believe that privatization actively performed by the state, and spontaneous privatization controlled by the state will play roles of more or less equal weight. In regard to the outrage manifested by enterprise managers: This is an exaggeration. This outrage stems from mistaken roles. In recent years the institution of autonomous, self-owned enterprises has created the semblance that these enterprise managers are the owners of the enterprises. Their confused role playing continues in the course of individual acts of spontaneous privatization: They negotiate on the seller's side, but so that their future ties them to the buyer. Deals struck by such enterprise managers will also benefit if they are baptized by the fire of openness, or of AVA's control. And I have this to say to whoever is concerned about the state: Privatization becomes an obvious impossibility if we perceive it in the framework of the party state. But the state no longer will be "this" kind of state, it will be a constitutional state controlled by democratic processes instead.

[HVG] According to plans, AVA would transfer the state stock, business shares for "everyday use" to property managers. Who would become property managers, and what relationship would these have with AVA?

[Martonyi] Property management would become necessary only, if for some reason, a sale is delayed. In the framers' perception, the group of property managers is an open one. Anyone could form a property management organization provided that he complies with the appropriate professional and financial criteria. Property managers would compete for the right of managing part of the state property, and under no circumstances would we rule out from among the contestants foreign institutions which organize investment projects, and which have

already expressed a lively interest. The property manager could enter into a contract with AVA for the sale of given securities under certain conditions, or even for a specified income producing "use" of such securities. No more would happen than what investment firms and similar companies do with investments entrusted to them all over the world.

[HVG] Why would a property manager become a better owner than, for example, the Ministry of Industry?

[Martonyi] Because the property manager would not be a state administrative organ, he would have to stay on his feet in the midst of competition, because being a property manager is a profit-making venture. His future assignments depend on the results he achieves in managing property. If the value of state securities managed by him decline in the capital market, if dividends diminish, the property manager will also go broke, or at least he may surrender the prestigious title of being the "property manager of the court."

[HVG] Meanwhile, however, he will have allowed state property to float away....

[Martonyi] To eliminate this threat, the title of "state property manager" will be available only to organizations which provide special security.

[HVG] Although property policy principles exist only in a seminal form, some firm and rather radical privatization plans are being prepared by the government for a relatively narrow field of the economy: state retail trade. What's the philosophy of this?

[Martonyi] The philosophy behind this is that in retail trade and in the catering industry the proliferation of the contracting and leasing system has accomplished semi-privatization in practice. This process could be completed. According to the pseudo solution [as published] the law would obligate enterprises to sell their contractually operated or leased business premises within a limited period of time, giving preference to the present business managers, of course. Eighty percent of the selling price would go to AVA, or, in the majority of cases involving enterprises established by councils, to the councils. The proposal came under the crossfire of debate, because advocates of autonomous property owned by settlements believed that councils wanted authority to dispose over the property itself, rather than to receive the sales proceeds of such property.

[HVG] One of the pillars of the entire privatization structure is the above described property policy advanced by the state. The other pillar, I believe, is the demand for capital. The stimulation of this is treated only tangentially in the proposal.

[Martonyi] There are a few results already: Next year's tax system gives preference to investments, the National Bank has developed preferred privatization credit structures, and private enterprise support promised from abroad has a beneficial effect. All this amounts to little,



however, because ever since we have been working on legislative proposals for privatization I have constantly advocated measures which create customers, and stimulate entrepreneurship. I have great expectations with regard to the employee stock purchase program (ARP) adopted by Hungary on the basis of Western patterns. In the framework of this program the employees of an enterprise which has changed into a corporation could become part owners of their enterprise with the help of a bank loan. This is not the same as autonomy, because employees do not seek to become part of management, they want to be part owners.

[HVG] Why don't you want to make people stockholders in a simple way, even without ARP? If, as rumors have it, the securities law which comes before Parliament in December reduces today's minimum stock value from the present 10,000 forints to a level even below 1,000 forints, and provides guarantees for the protection of investors, some mass interest could evolve at the stock market.

[Martonyi] Indeed, in several foreign countries a requirement exists according to which in the course of privatization a certain proportion of the stock must be offered to the public in the form of a public issue. As compared to a few hundred thousand stockholders, the number of stockholders and small investors has increased to several million through this process in England and France. This opportunity is available to us and these would have to be stated as part of the guiding principles for property policy. In such a case the sales policy may be influenced by a new element. That is, if all we say to the one who offers the highest amount is, "take it," we will find that under today's circumstances foreign capital will take everything from under the noses of potential Hungarian owners. This situation must be prevented by providing preferences to Hungarian buyers.

#### **Financial Research, Inc Opposes Proposal**

25000550 Budapest NEPSZABADSAG in Hungarian  
12 Dec 89 p 4

[Article by M. G.: "Property Reform Is Needed, but in a Different Way"]

[Text] "The moment of truth has not arrived just yet." This thought was also stated at yesterday's press conference at which leading officials of the institute expressed their views on the government's legislative proposals concerning proprietary reform. As Marton Tardos pointed out, they found it necessary to comment on the proposal, because to their knowledge the proposals are still scheduled to come before Parliament. Subsequently they conveyed the sense that the government may withdraw the proposal, but under no circumstances would they consider the adoption of the present four laws by the current, or by a subsequent Parliament to be a fortunate event.

According to leading officials of Financial Research also known in the political arena, the government would be

making a mistake if in the interest of enhancing the enforcement of the Law on Transformation, it would persuade Parliament to adopt the law concerning AVA. Among all the objections the first one raises the issue that essentially, AVA could function only if someone handed stock to them. It raises concern that in its essence AVA is a new bureaucratic organization. It would become a "ministry of ownership." The experts regard it as a mistake that the proposal did not settle the relationship between AVA and ASZ. In essence, the latter has no control over AVA. Istvan Csillag made reference to the fact that the law designed to protect state property was developed primarily in response to political pressure. According to Laszlo Lengyel, today's political sphere applies "firefighting" methods, just as they did in the late Kadar era. Except for a difference: At the beginning of the decade this firefighting was done when trouble occurred. Now they are fighting fires whenever there is noise, i.e. when one or another measure serves to inspire political debate.

Today's situation is characterized by a multitude of uncertainties, according to Tardos. The enterprise is in an unstable condition, but the condition of the government which oversees the enterprise is no more secure, and all this is supplemented by uncertainty in the general conditions of doing business.

Lengyel stressed that the experts of Financial Research believe that essentially, state property has not existed since 1985. Accordingly, Tardos suggested, "it must be expressed that from the standpoint of ownership, autonomous enterprises are only property managers." This would mean that autonomous enterprises would be held accountable for state property, because today no one demands an accounting from these enterprises, or from the group of 2,000 enterprises, as to what they are doing with state property—whether they are managing state property in such a way that it appreciates, or if they are selling it out quietly. The president of Financial Research, Incorporated believes that transformation processes must be accelerated, nevertheless in order to do so the person who exercises ownership rights and to whom an accounting has to be made must be defined. For what purpose the value of privatized enterprise property will be used is one of the main issues, however. No answer to this can be provided at this point. For this reason the experts feel that it is important to state that proceeds derived from transferring state property into private hands may be used only for the purpose of reducing the internal and external state indebtedness. (In response to a NEPSZABADSAG question, they said that they were in the process of developing ways in which such transactions—called "swap" in English—could be realized.)

Closely related to property management and to privatization is the requirement that such transactions must be implemented in the plain view of the public, in a "transparent" manner, because as of today this matter constitutes a political issue and is related to social

confidence. Lengyel also relegated the issue of proprietary reform to the realm of politics, and said that he was concerned about the fact that there was significant disagreement regarding this issue among the parties, and that there was much demagoguery. Privatization is advocated by the same people who demand the exclusion of operating capital while voicing national watchwords. They stand up in the interest of small owners, and in the next moment declare entrepreneurs to be neppers [term unknown]. In Szolnok the Smallholders wanted to beat me up because I did not approve of restoring the 1947 conditions of land ownership; Lengyel characterized the heated nature of this issue. Incidentally, Lengyel also understands that, in regard to the ownership issue, there is no just solution; one may choose only between bad and worse—it will be decided in the course of a struggle—moreover, in the course of a “class struggle,” whether managers, the workers’ collective, the state administration of real private owners will dispose over property.

In the final analysis Financial Research officials believe that need calls for not a single central state trust, but for several large trust funds, and that along with such trusts the sense of responsibility manifested by the present enterprises must be increased.

Not only did the proposed legislation give rise to critique concerning the government. It was felt that the present method of centrally initiated enterprise bankruptcy proceedings is also mistaken, because there are no competent firms that could serve as trustees in bankruptcy to provide for the liquidation or rehabilitation of enterprises which got into trouble. (Financial Research, Incorporated is preparing to undertake such tasks, according to Csillag.)

Sandor Kopatsy’s new book entitled “After Twenty Years” was presented at the end of the press conference. The author said that this volume deals with the idea of grass roots reform, and is critical of today’s fashionable view, and particularly of (leninist) Josephinism which continues to survive in Eastern Europe. That philosophy is based on the conceptual parallel of dumb people—smart intelligentsia. Whatever we may be proud of in Hungary was built from the grass roots, Kopatsy said.

#### **Draft Competition Laws Completed**

25000548A Budapest HETI VILAGGAZDASAG in  
Hungarian 9 Dec 89 p 7

[Text] According to Ferenc Vissi, National Pricing Office state secretary, at Monday’s press conference, draft competition and pricing laws have been completed. These are two important elements of establishing a new constitutional setting for the economy. The purpose of these laws is to establish rules for the market economy. At present, under simulated competitive conditions it is self-explanatory that, for example, councils place orders for construction work within their own jurisdiction to local construction enterprises, and do not seek competitive bids for the construction of a given establishment. This conduct will violate laws after the adoption of the

competition law, because it provides an unwarranted advantage to a firm and inhibits competition. Along with provisions governing unfair and deceptive conduct in commerce, the law establishes mandatory standards regarding mergers, market sharing, and cartel formations. After completion of societal debate, the government is likely to submit the proposal to Parliament during the first half of 1990, and thereafter the Cartel Office may begin its operations. This organization will render opinions concerning laws promulgated by individual ministries and state administrative organs, in case those provisions conflict with the freedom of competition. The Cartel Office may also challenge such provisions before the Constitutional Court.

#### **Questionable Sale of State Properties Discussed**

90EC0170A Budapest MAGYAR HIRLAP in  
Hungarian 19 Dec 89 p 3

[Interview with Dr Laszlo Kotz, chief counselor at the National Planning Office, by Katalin Torok: “Wasted Billions: New Sins Replacing Old Ones?”; date and place not given]

[Text] Limited liability corporations and stock corporations are mushrooming, state enterprises fall by the auctioneer’s gavel and are sold, we frequently exclaim how much we expect the arrival of foreign capital in Hungary. Just how do these events take place, and to what extent are they managed in a responsible manner? What takes place behind the scenes? Who are the nouveau riche, and how are they becoming rich? These are the issues we discussed with Dr Laszlo Kotz, chief counselor at the National Planning Office, the economic expert of the Hungarian People’s Party.

[MAGYAR HIRLAP] Not too long ago you wrote about wasted billions. Bos-Nagymaros justifiably evoked public outrage, and cost about 100 billion forints at today’s prices. This is no small matter, but you are talking about some additional wasted billions.

[Kotz] I would like to state that I am an advocate of proprietary reform, of dismantling state property, because in my view it is obvious that operating capital owned by the state does not appreciate well. But the way in which state property is becoming dismantled is not at all an indifferent matter.

[MAGYAR HIRLAP] What amounts are we talking about?

[Kotz] This is a difficult question already, because however odd it may seem, no one really knows what the real value is. The country’s assets amount to between 5,500 billion and 6,000 billion forints. Of this, between 1,600 billion and 2,000 billion forints constitutes operating capital, and land represents an additional 1,000 billion forints. These are the recorded figures. But let me give you a specific example. An enterprise built in 1968 is recorded as being worth 50 million forints, while its replacement cost today would be about 1,500 million

forints. It produces 30 million forints in profits annually. But if someone would take a look at that enterprise he would find machinery in the plants that would much rather belong in the junkyard. It is yet another matter of course, that a thinking person could rightfully see a prospect in this factory. All I wanted to convey by mentioning this is that the country's real property was most recently reappraised in 1968, and these records are still valid today, and the record is composed of extremely heterogeneous figures.

[MAGYAR HIRLAP] The state is being dismantled. They are selling factories and enterprises. Who are the potential buyers?

[Kotz] As of today the National Savings Bank [OTP] has about 300 billion forints in individual savings on deposit. People do not save money to buy factories, they save to buy an apartment, a refrigerator. Supposedly, perhaps between 30 and 50 billion forints of that amount will be invested. Under favorable conditions, i.e. if credit policies were favorable, the amount to be invested could be increased up to 200 billion forints, but still, this would amount to only 10 percent of the property for sale. In simple terms: No one in the country could purchase the state's property. This is one reason why such grave confusion concerning values arises. The starting price for Pet Nitrogen Works was 100 million forints, but in the end it sold for 1,750 million forints. This makes a big difference, and it is irresponsible to give away the country's property in this way.

[MAGYAR HIRLAP] Many look forward to the arrival of foreign capital, others are talking about the colonization of the country.

[Kotz] As the previously mentioned figures suggest, the Hungarian buyer has no chance because he has no money. Figuratively speaking, the foreigner arrives, he bids an amount that is 20 cents higher, and he takes the whole thing. He is well off, because perhaps he acquired part of our national assets at an unrealistically low price, he receives a tax benefit, and the exchange rate favors him. At the same time, one should also clearly understand that the entire matter represents gambling to the foreigner. Because of the past decades' politics he strongly lacks political confidence, meaning that he is assuming a risk when investing in Hungary. Accordingly, by logic he brings only part of his money to Hungary, the kind of money he is prepared to lose. I recognize a problem even if products are manufactured of Hungarian base materials by Hungarian labor in a plant that was purchased by a foreigner—let's say the foreigner contributed the sewing machine—and the profits are generated in forints and leave the country in the form of dollars.

[MAGYAR HIRLAP] What is the solution then, considering that also you agree with the idea of dismantling state property?

[Kotz] Under any circumstance the solution is something other than not having private property, because in

my view private enterprise should be granted even more benefits. Had they permitted small enterprise to grow, had they not beaten small enterprise to death with taxes, we would have a significant, decent private sector today, one that did not acquire its fortune through robbery. One should also watch that once foreign capital arrives and we have sold something to foreigners, it will be impossible to take that property back because property is sacred, one must not shatter the faith in owning property. After all, this was one the biggest mistakes we made since 1945; we disgraced property a countless number of times. On the other hand, we must not distribute property in a foolish and irresponsible manner. In my view the domestic market should be established, and privatization should take place in two steps.

[MAGYAR HIRLAP] What does this mean in specific terms?

[Kotz] Enterprises should be offered for sale to foundations or to municipalities. Thus in the first step the municipalities and the public foundations would become the owners by using the method of capitalizing budgetary subsidies. In this way the internal prices could evolve, and if, for some reason, a mistake is made in the course of the sale, that mistake could be corrected, because all this would take place within Hungary. I also have in mind a public foundation with an employment focus, whose purpose it would be to create jobs and provide retraining, one that could acquire 30 percent of the enterprise property on a national average scale. I expect to see 1.5 million unemployed persons in the near future. It would be necessary of course for the public foundations and local autonomous governments, in their capacity as owners, to be made responsible for the property by providing them serious financial incentive. Under present law an enterprise manager is responsible for bad decisions reached only to the extent of 6 months worth of the manager's pay. Nevertheless, these decisions may cause huge damages.

Accordingly, there should be real local autonomous governments, and if these were the owners, the public within a village or municipality could control these governments, and thus a moral value system would also regulate the economy. Because the other largest concern is that momentarily the honest people do not even have a chance of getting out of trouble. Let us not replace the old sins with new ones, with regard to land, for example. The Law on Transformation provides that cooperative members may distribute half the property plus 30 percent. Some cooperatives have admitted even their employees as members; in such instances, of course, the property would be divided into a larger number of parts, and thus it may occur that in the course of the present distribution some will receive less land than what they entered the cooperative with a long time ago. I often think that we are playing a national roulette game, because in that game of fortune blind coincidence determines the number on which the ball will stop. At the moment, we are once again taking away everything from certain strata, while we are providing a fortune to others

virtually by coincidence. Just think of the way houses are sold: anyone who lives in a well situated villa in Buda is able to acquire housing property for a pittance.

[MAGYAR HIRLAP] Or, as Bulcsu Bertha wrote in ELET ES IRODALOM, he may pay big money for the house owned by his father, the house that was nationalized in the 1950's.

[Kotz] It is precisely for this reason that I believe it would be beneficial to implement privatization in two steps, based on much more preparation and consideration, using serious experts, not in haste, not by losing our heads. And at the same time, debate and views with regard to this matter should receive substantially more publicity, because this is not a private affair of the state bureaucracy!

### **Biotechnology Research Center To Open in Godollo**

90EC0138C Budapest MAGYAR HIRLAP in  
Hungarian 20 Nov 89 pp 1, 9

[Article by Istvan Palugyai]

[Text] Godollo has become the scene of a minor miracle. In the midst of general economic recession and political battles today they are dedicating a scientific research center which befits the often empty phrase used nowadays: It is consistent with European standards, and under European one should understand more than just the Eastern part of the continent. The Agricultural Biotechnology Research Center, supposed to establish foundations for next century's Hungarian agricultural production, will be officially dedicated this morning. It is the largest scientific investment in 5 years, and it is located adjacent to the University of Agricultural Sciences.

I said "official," because actual work may begin only gradually within the walls of this institution—grandiose even from an architectural standpoint. Researchers would like to be working already of course, but as of this time only the empty places of the necessary instruments can be seen. This is because the World Bank's approval of the \$4.5 million interest free loan requested for the purpose of buying instruments was given only in late September, and Agrotek, responsible for purchasing the instruments was in no hurry to sign contracts. Thus it will take about a year to acquire all the instruments, even though 80 percent of the more significant equipment will be delivered this year.

Actually, there is a need for this equipment, because it would be a luxury to operate this 658 million forint establishment at a slow speed, when it had progressed at full steam beginning with its conceptual foundation in March 1986, through the laying of its cornerstone in October 1987, all the way until its present opening. Yes, your calculations were correct: The four story, 8,000-square-meter complex with computer-controlled

building engineering services and with Western equipment to the last faucet took 430 days to build, and during construction the plans dreamed up by architect Lajos Zalavari, twice the winner of the Ybl prize, were changed twice. The animal and plant shelters originally planned to be located in a separate adjunct building were moved to the roof, and this change saved 39 million forints. All this is no coincidence of course, because as a result of an international competition, construction work was contracted to the world's fourth largest construction firm: Philipp Holzmann from the Federal Republic of Germany, jointly with its partner, the Austrian AST firm. Their joint product is perfect. The educational miracle amounts to this: The plan, broken down by the day, was followed by Hungarian subcontractors. However, workers who did not install the insulation according to the foreign foreman's directions were fired instantly and could say farewell to the stimulating pay.

Intercooperation, Inc. maneuvered so cleverly that the foreign contractors were paid in the form of Hungarian goods, instead of foreign exchange. (Hungarians were frightened from the outset by the stringent conditions of the tender.)

### **Exodus From Szeged**

Not only did construction work progress in an exemplary manner. Scientific preparations for the country's first expressly biotechnological research center were also begun on time. Sandor Pongor, the barely 40-year-old deputy director of the institution, a doctor of biological sciences (he acquired this title in record time considering Hungarian conditions, by performing experimental work), began recruiting a research team in 1986. They announced two competitions. The number of respondents was a multiple of the number of researchers needed, nevertheless it allowed the selection of 60 recent graduates. They were sent to 13 Hungarian and 12 foreign universities and research institutions for further education. Meanwhile they took examinations in the English language and in computer sciences, and performed their tasks on the basis of individual programs. It has been 3 years since they began collecting the periodical inventory of a library which now incorporates 10,000 publications (they are subscribing to 120 professional papers), and the researchers' computer network will soon be operational. This is the first instance when a computer specifically designed to resolve biotechnological problems has been installed. It is capable of networking directly with foreign data bases.

The most important task was to lay down the outlines of the scientific program. Since biotechnology builds on genetics and biochemistry, these two sciences were allotted separate buildings within the complex. Pursuant to the fields of applied research, they established separate biotechnological institutes for plants and animals. These will keep in touch with producers and employers according to their respective missions.



The Molecular Genetics Institute is headed by Professor Laszlo Orosz. He exchanged his post as genetics department head at the Jozsef Attila University of Sciences for this new opportunity. His departure provoked a small "exodus" from the university because his immediate associates, almost half the department that constitutes the school of genetics in Szeged, accompanied him.

After the age of 40 it is worth starting on a new career only if one can play soccer in the Real Madrid, to use a sporting term. The people here correspond to the players of the Real Madrid, according to the professor. He will stay another year at his old post to help along the regeneration of talent. But regardless of what they say about the high standards of the Godollo University, five or ten talented youth will graduate from that school each year, and that will suffice for regeneration.

The institute intends mainly to establish the basic research methodical base for genetic surgery technology. One of its goals is to transplant a single alien gene to the given place of a chromosome, and to have the alien implanted gene function so that it can be regulated. Plans for applied research extend among other matters to producing rice improved by a gene that regulates one of the important wheat proteins, and the breeding of a transgenic carp (one that contains an alien gene) that grows fast, and becomes full sized a year earlier than usual.

The Biochemistry and Protein Technology Institute headed by Pongor is preparing to design and to produce new protein products, and to change the structure of known proteins. This scientific trend was enabled beginning in the early 1980's and has great practical significance. One need only think about the tons of enzymes used in the food industry, and about various animal feed proteins and vaccine and hormone preparations used in veterinary medicine, whose quality improvement through new methods holds the promise of grandiose results.

#### **Our Agriculture as the Customer?**

Directed by Laszlo Solti, the Animal Biotechnology Institute holds out the promise for the mass production of embryos through test tube fertilization, the creation of transgenic animals, and the development of veterinary diagnostics. They would like to introduce genes into domestic animals to produce more meat, a better composition of milk, and a greater degree of immunity against diseases. One of their research topics pertains to a test by which gestation may be determined at an early stage in domestic animals, within one minute, in the stable.

Doctor of biological sciences Ervin Balazs, head of the Plant Biotechnology Institute, starts out with some results already. One of their associates, jointly with researchers at what may be regarded as the predecessor of the Center, the Szeged Biological Center, succeeded in implanting part of the hereditary material in potato virus into potato plants, rendering them resistant to the

pathogen. Progressing further on this path they now want to begin their fight against viruses.

Accordingly, the center is prepared to take orders. Is there going to be a demand with an ability to pay? Managing director Janos Pek and his staff (there are only 80 of the planned 100 researchers present) counts primarily on strongly capitalized large enterprises in Hungary, and on foreign firms interested in the Hungarian market in terms of insecticides and seeds. The Ministry of Agriculture and Food supports each researcher by providing between 1.2 and 1.5 million forints, but the Center would like to accomplish a 50-percent financial independence within 5 years. Organizations like this are not self-supporting anywhere in the world. The Center's plan for a degree of financial independence suggests commendable courage.

Their culture-creating mission is most important today. They pursue this mission by familiarizing the young generation of professionals, the agricultural leaders of the near future, with new accomplishments in the field of biotechnology, so that they can adapt the new technology developed in the world to the Hungarian environment, and even if not in one step, it may be hoped that they may prompt Hungarian agriculture to change gears.

Above the entrance of the new center there is a round shaped emblem that reminds one of the watchful eye. It depicts a stylized DNA [deoxyribonucleic acid] molecule, but at the same time it also signifies research and an inquisitive mind. It is important that it cast its beam far.

#### **Academy of Sciences Publishing House To Become Stock Corporation**

25000548G Budapest NEPSZABADSAG in Hungarian  
6 Dec 89 p 4

[Text] Akademiai Publishing and Printing Enterprise will be changed into a stock corporation, according to a decision reached by the presidium of the Hungarian Academy of Sciences.

In the presidium's judgment, a full reorganization and a complete reassessment of Akademiai Publisher's publishing policies is needed. The academy continues to regard the maintenance of the publishing function and the subsidizing of scientific publications as its function. The publishing function plays a significant role in the nation's intellectual life. They are planning to transfer the function of publishing periodicals under the jurisdiction of scientific workshops.

In analyzing the situation of Hungarian space research, the presidium stated that the development of this branch of science continues to be warranted in the upcoming period, because space research serves as an important stimulant to the development of the physical, biological, and engineering sciences.

### Concerns Over Food Price Liberalization Expressed

25000551A Budapest FIGYELO in Hungarian  
23 Nov 89 p 11

[Roundtable discussion with Peter Hodina, chief division head of the National Pricing Office; Jeno Rednagel, deputy minister at the Ministry of Agriculture and Food; Aladar Sipos, academician; and Ferenc Spilak, deputy commerce minister, moderated by B.P.: "Expensive Meat Will Have Expensive Gravy"; date and place not given]

[Text] Food price controls will be lifted beginning next year. Not only will the public be placed in a difficult situation as a result of the expected price increase, but supposedly agriculture itself will also experience difficulties. At the roundtable of our editorial offices, Peter Hodina, chief division head of the National Pricing Office; Jeno Rednagel, deputy minister at the Ministry of Agriculture and Food; Aladar Sipos, academician; and Ferenc Spilak, deputy commerce minister exchanged views concerning this matter.

[Sipos] Agriculture has become disadvantaged during the past 10 years. The profitability of basic agricultural functions and the agricultural processing industry have been in a continuous decline for years. This can be traced to two factors: Input prices rose on the one hand, and state subsidies were drastically reduced on the other. The gap between agricultural and industrial product prices has narrowed greatly.

On the basis of all this, it appears justified to let producer prices move freely, in order to enable agriculture to further convey the input price increases. But such increases may be further conveyed only to the consumer. Therefore, consumer prices must follow producer prices.

Nevertheless, I believe that the matter of removing price controls, or more accurately, the tandem fluctuation of daily producer and consumer prices has not been considered adequately, and therefore the introduction of free pricing in January 1990 represents hasty action. At a time when agriculture cannot choose among investments because supply is tight, at a time when there is inflation, it is questionable whether it is appropriate to let consumer prices go free. I am concerned that price increases will once again strike those social strata which have suffered most from inflation until now: pensioners and people with low income.

Another reason why I do not approve of the free fluctuation of food prices is that we do not know what effects this will have on agriculture. In my view, the structure of demand will undergo a fundamental change. One cannot count on seeing significant increases in real wages in the next 5 to 10 years. And this fact will necessarily rearrange agricultural production. One cannot calculate the effect of a change in consumer demand upon agricultural production. I am concerned that the market will shrink,

that even more agricultural plants will operate at a loss because they will be unable to sell their products.

Considering the present production structure, the world market is no long-term trading partner insofar as the Hungarian food economy is concerned. The fact that last year, and even this year favorable world market effects prevailed does not suggest that this trend will prevail in the long term. On the contrary! In the long term one may count on reduced prices, or on the stabilization of today's price levels, in my view.

[Hodina] In principle I agree with the removal of price controls, but along with free prices we must establish an appropriate financial institutional system and an information base that serves this system. We must determine the points of intervention, because the operation of a classic free market is inconceivable. And at present it seems that in Hungary we are leaping into such a classic free market situation.

Price controls could have been removed only as part of a complicated reform process in order to minimize the burden on the populace. But if we individually implement one or two factors of a complex process ... this will lead us to the same place tax reform did.

In the public view there is a buyer's market in food production, because depending on the year we are looking at, the Hungarian food industry has produced between 25 and 32 percent more than what the Hungarian market is able to absorb. Accordingly, this is a buyer's market. But only seemingly. In reality, a buyer's market does not prevail in Hungary, because this country must squeeze out dollar revenues from its agriculture. For this reason we have established a separate market in which we sell that 25-32 percent of our agricultural production, even though the domestic market is the basis for our food production.

Any producer will enter the export market only after he has taken advantage of every opportunity in the domestic market, and if he can improve upon the utilization of his production capacities only by exporting. In Hungary we have the opposite situation. We are really disorganizing the market by having to force our agricultural exports. There are some who put this in more extreme terms. Mainly on the basis of this year's phenomena they say that under the pretext of exports we are plundering the domestic market.

The export law and its implementing regulations include some producers who have heard of efficiency only by word of mouth. This had to be stopped somehow. Price liberalization can resolve this situation only through extreme measures. The system of conditions underlying price liberalization also includes the regulation of competition, which in turn demands contractual discipline. But in Hungary contracts will be disregarded without a second thought if the producer envisions a short-term boom, or the wholesale buyer sees some effects as a result of which the market will decline.

Accordingly, price liberalization alone, in the absence of market institutional systems, will have a boomerang effect on agriculture.

[Dr Spilak] Basic food consumer prices are controlled in countries with developed market economies. In Hungary, a country which is in the process of becoming a market economy, the easiest thing is to do something with prices as an initial action. This creates much concern and trouble. Price liberalization will not exert the expected effects and will not fulfill its intended purpose if other segments of the market remain unchanged, if there is no competitive situation, if the sales and organizational structure is left untouched, or if monopolies survive.

Just why is intervention easier in the European Community? Because production fluctuations are more predictable. For example, the fluctuation of food production during the past 4-5 years in the common market remained below a maximum of 10 percent. In Hungary the maximum fluctuation is 40 percent. Balanced production is related, of course, to the state of technical provisions available to production. As a result of this the fluctuations of the business cycle become more predictable, and accordingly, the risk taken by the intervening state is smaller.

[Rednagel] Perhaps the greatest problem the food economy experienced for a long time was that industrial input prices were continuously freed, while food prices were established by the authorities. This was accompanied by a reduction in subsidies, and by a disproportionate redistribution of the national income as a result of diverse inflation rates. In every case the food economy suffered a loss.

In addition, food prices that are maintained below their real value induce overt or covert subsidies. For example, the consumer who consumes more will benefit from subsidized meat prices. And those who consume more will not be the low income people, those in the greatest need.

If domestic sales do not create the most profitable market for producers, they will prefer to engage in exporting. This is proven by the problem we have experienced with meat supplies this year. This situation occurred "in the interest of protecting consumer prices," and could be observed in virtually every significant specialized branch engaged in significant exporting, for a longer or shorter period of time.

And if domestic sales which consume a decisive part of production do not provide the appropriate income, this will necessarily exert a reverse effect on agricultural base material production, which in turn may threaten not only the exports, but also the domestic supply.

I do not agree with the idea that the conveyance of free price increases of inputs enjoying a monopolistic situation onto food prices must be centrally restricted. Declining real wages alone exert a constraining effect on

demand for food. Accordingly, one need not be concerned that increases in food price levels that substantially exceed increases in expenses will occur. The possibility of this occurrence is restricted by a shrinking market. It is yet another matter that a moderation of the dynamic increase in production costs, and thereby the slowing down of the rate of consumer price increases, is conceivable only through a reduction in agriculture's dependence on inputs, through the further relaxation of monopolistic situations, and through import liberalization.

Regardless of whether free prices are introduced, or whether the present system of prices established by the authorities continues, agricultural producers must count on a shrinking domestic demand and on a change in the structure of domestic demand. For this reason alone, the free pricing system presumes the operation of a well functioning, independent agricultural intervention system, the continued presence of cheaper products in the marketplace, and a self-restraint exercised by producers, the latter as a function of the domestic and export market.

Concerns related to consumer food prices are also increased by earlier conceptual and practical requirements which regarded standard of living policies and food consumer prices as synonymous. Since wages did not cover the actual cost of processed products, we resolved social policy tasks by depressing consumer prices—in part consumer food prices—and by providing subsidies.

I will agree that the significant liberalization of agricultural and food industry prices is not without risks. But it should be taken into consideration that one cannot expect from any individual country's agriculture, and thus from Hungarian agriculture, that its annual production be balanced and undisturbed as compared to demand presented in the marketplace. This matter could not be successfully resolved independently in economically more developed countries, thus in West Europe either, on the basis of individual countries. It was possible to resolve this in the framework of an economic community by ensuring the availability of appropriate, considerable reserves. Therefore, in Hungary we must operate a market mechanism which in the realm of food does not rule out the possibility of imports.

### **Cellular Telephones To Be Introduced**

*25000548D Budapest HETI VILAGGAZDASAG in Hungarian 25 Nov 89 p 10*

[Unattributed article: "Telephone Without the Postal Service"]

[Text] Hungarian Telecom Limited Liability Corp. [Kft] has promised that beginning in September 1990 a so-called cellular radio-telephone system will begin operating in Budapest, independent from the Postal Service. The company, established with a 1 million forint

founding capital (members: Coopinvest Small Cooperative, BRG, Technical Foreign Trade Enterprise, Centroinvest, Kft.), intends to establish a joint enterprise with the Australian Bond Corp. Holdings Ltd., for the development of a nationwide radio-telephone network to accommodate between 50,000 and 150,000 cellular phones. According to plans, each set will cost between 50,000 and 80,000 forints, and the per minute charge for telephone conversations will be between 5 and 8 forints. Subscribers to the cellular system will be able to communicate not only with each other, but also with all telephone sets that are part of the national (cable) telephone network. The Ministry of Defense would surrender the needed part of the frequency spectrum. The company intends to finance the approximate \$150 million investment from its own sources and from foreign capital.

## POLAND

### Joint Venture in Diesel-Engine Minitractor Production

90EP0143D Warsaw RZECZPOSPOLITA in Polish  
17 Oct 89 pp 1, 3

[Article by A. Mank.: "Minitractors Modeled on Italian Ones"]

[Text] Every farmer and horticulturist in Poland dreams about diesel-engine minitractors. Unfortunately, thus far such tractors have not been produced in Poland. But now there is a completely realistic chance that their production will be begun, and in a short time.

On 10 October an application for registration was submitted to the court in Lublin by one of the largest stock-type joint venture companies in the region and in the country, Sipma. The day before, in the Lublin Agromet Farm Machines Factory, five main contracts making this possible were signed with Italian shareholders. Three Italian firms have entered into the company: Ruggierini (diesel engines), Barbieri (minitractors), and Omas (presses for straw and hay). Polish industry is represented by Agromet Farm Machines Factory, Truck Factories in Lublin, and Agromet-Motoimport Foreign Trade Enterprise in Warsaw.

The company's capital amounts to 12 billion zlotys, of which 20 percent is foreign capital. The specializing Italian firms' input included full construction-technology documentation and know-how for the production of high-compression engines and the minitractors themselves (single- and double-axle), modern presses for straw and hay, and several auxiliary pieces of equipment, such as mower, rototiller, spraying machine, trailer, and the like. Using high-compression engines, it will also be possible to produce current generators and motorboat pumps. The cost of starting up production of the minitractors is estimated in the first stage to be \$45 million, necessary for the purchase of machines and equipment. One of the American [as published] firms will finance this.

Ultimately, 14,000 single-axial tractors will be produced, and half as many double-axle ones. The first 900 units should be assembled by the Sipma company already next year.

The advantages of forming a company are obvious. Polish agriculture will receive ultramodern machines which will improve crop quality and the domestic enterprises will get a chance to modernize their stock of machines and apply the latest technologies.

### Enterprises 'Qualified' for Foreign Economic Cooperation

90EP0147A Warsaw RZECZPOSPOLITA in Polish  
20 Oct 89 pp 1-2

[Article by (kraj): "Business Opportunities Available"]

[Text] As earlier mentioned in the economic program, L. Balcerowicz, minister of industry, recommended that a list of enterprises which "qualify" for foreign economic cooperation, be prepared immediately. A special task force was appointed which, a couple of days ago, prepared just such a list. It shows 160 factories from various branches and of various sizes, beginning with mills and cement factories employing several thousands, and ending with small plants in the light industry.

The selection was guided by the rather difficult financial status of those plants which now cannot count on support from the state budget and do not have enough funds to modernize or buy new machinery, or update their technologies. In most cases, explains the Department of Economics and Systems in the Ministry of Industry, these are enterprises which are highly materials- and energy-intensive and require changes in technology, or are polluting the environment. As we know, these types of investments are very costly and not many factories can afford them without the participation of the state treasury.

It is estimated, however, that in view of the production profile or the qualifications of the workforces, these plants may be of interest to Western partners. Also, those foreign contractors will be chosen which are not only willing to invest, but are also willing to take their shares in the form of payments on our debt.

Right now the Ministry of Industry is sending offer questions to the "selected" enterprises. Whether they enter into foreign economic cooperation, and in what form, depends on the plants themselves. If, by return mail, they express an interest in the ministry's proposal, details will be described jointly with the parent agency. All kinds of ownership solutions come into play: Joint stock ventures, stock companies, bonds, and even, if someone wants, financial assistance on specified terms. The Ministry assures us that by the end of the year, a concrete offer, a list of factories will be available.

At the same time, jointly with the Ministry of Finance, the matter of the institution which will take over this



little "assignment" is being considered. On the one hand, there will be a complete list of Polish enterprises which have decided to enter into arrangements with foreign partners, and on the other hand there is a list of interested Western partners. Some thought is being given to forming a completely new institution, either in the Ministry of Finance or in the National Economy Bank.

But the fact that the enterprises themselves will decide their future is indisputable. The Ministry of Industry intends only to play the role of advisor and organizer, and not a superior administrator. But definitely for many factories the new solution will be the only way to avoid bankruptcy.

### **Monopoly Most Pronounced in Trade; Alternatives Viewed**

90EP0147B Warsaw RZECZPOSPOLITA in Polish  
20 Oct 89 pp 1-2

[Article by (an): "Trade Begins an About-Face From Monopoly"]

[Text] Trade is the most monopolized area of the economy. Several years ago the market was divided among the large trade organizations. The city took Spolem (Central Union of Consumers' Cooperatives) and the countryside took Peasant Self-Aid (Central Union of Agricultural Cooperatives). State trade concerned itself with industrial articles.

Can this unfavorable state of affairs be changed quickly? At a recent meeting of the Economic Committee of the Council of Ministers, the Ministry of Domestic Trade presented the outline of a concept that it had prepared on the demonopolization of trade, which shows that, contrary to appearances, it is easier to demonopolize trade than industry. But demonopolization must take place in stages, according to plan, so as not to disrupt daily services to millions of customers.

The deputy minister of the voivodship council, Marek Borowski, described the main points of this plan. It appears that trade premises which are being badly utilized by the present users but are the property of the city, are the ones which can be put into private hands most quickly. They must either be sold, or if there are not sufficient buyers with capital, they must be leased out. The latter form has the advantage that it makes it possible to control or keep a given center in a socially desirable branch.

The minister of the market has already requested the voivodes to review the premises in their jurisdiction and take the above-mentioned steps, indicating that these premises should be sold or leased by the bidding method.

Further demonopolization measures require that many directives, regulations, and laws be changed (e.g., the recently announced draft on cooperatives).

In the case of voivodship state trade enterprises, the ministry suggests that they be divided up, but in such a way that at least two are in a given area so as to compete with each other.

A rather good solution, proven in the West, is franchising. That is, a firm which is made up of the "mother" enterprise (there it is private, but here it can be a cooperative, a company, or a state organizational unit) and a network of shops leased to companies or private persons. The "mother" enterprise takes care of the wholesale operations, the training, the investment, and the legal services. A few enterprises are already functioning on this basis in our country, e.g., Polmozbyt in Lodz and Szczecin.

The demonopolization of trade in the countryside requires a somewhat different approach. In view of the small number of sales centers in these areas, competition can be created only by establishing new ones. But economic support is needed (trade in the countryside is less profitable due to higher costs) in the form of tax and credit preferences.

### **New Record Set in Grain Harvest**

90EP0162A Warsaw RYNNKI ZAGRANICZNE in Polish  
23-26 Sep 89 p 2

[Article by AD: "Record Grain Harvests in Poland"]

[Text] The Main Statistical Office, GUS, has estimated this year's grain harvests in Poland at 26.8 million tons, a new record. This figure exceeds last year's by 2.3 million tons and is 700,000 tons more than the highest level achieved since 1986. This good result follows from the record yields achieved. The average was 32 quintals per hectare, compared to 29 quintals last year and 31.1 quintals 2 years ago. The good quality of the grain produced this year is also worth noting.

The GUS estimate turned out to be far above what Western circles had expected. For example, the International Wheat Council had estimated this year's harvests in Poland at 25.96 million tons. The European circle estimated 26 million tons, consisting of 8.1 million tons of soft wheat (7.6 million in 1988), 7.8 million tons of rye (7.2 million in 1988), 4.1 million tons of barley (3.8 million in 1988), and 2.3 million tons of oats (2.2 million in 1988).

Despite the fact that grain yields are so much better this year, our domestic demand will still not be met, and we shall still have to import grain. The International Wheat Council estimates our imports for the 1989-90 season at 3.3 million tons, including 2.1 million tons of wheat and 1.2 million tons of barley and corn.

Actual imports may turn out to be smaller, especially if harvests are higher than the original estimates, and also because of the food aid which many western nations have promised us. Thus, the countries of the

European Community, for example, have offered Poland \$140 million worth of food support, and the United States has offered \$100 million worth during the fiscal year beginning 1 October. In addition,

Austria, Iceland, and Switzerland have also declared their desire to help Poland. Twenty-four Western countries will meet in Brussels beginning 26 September to discuss further aid to Poland.

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